

DUN'S REVIEW

JUNE · 1951
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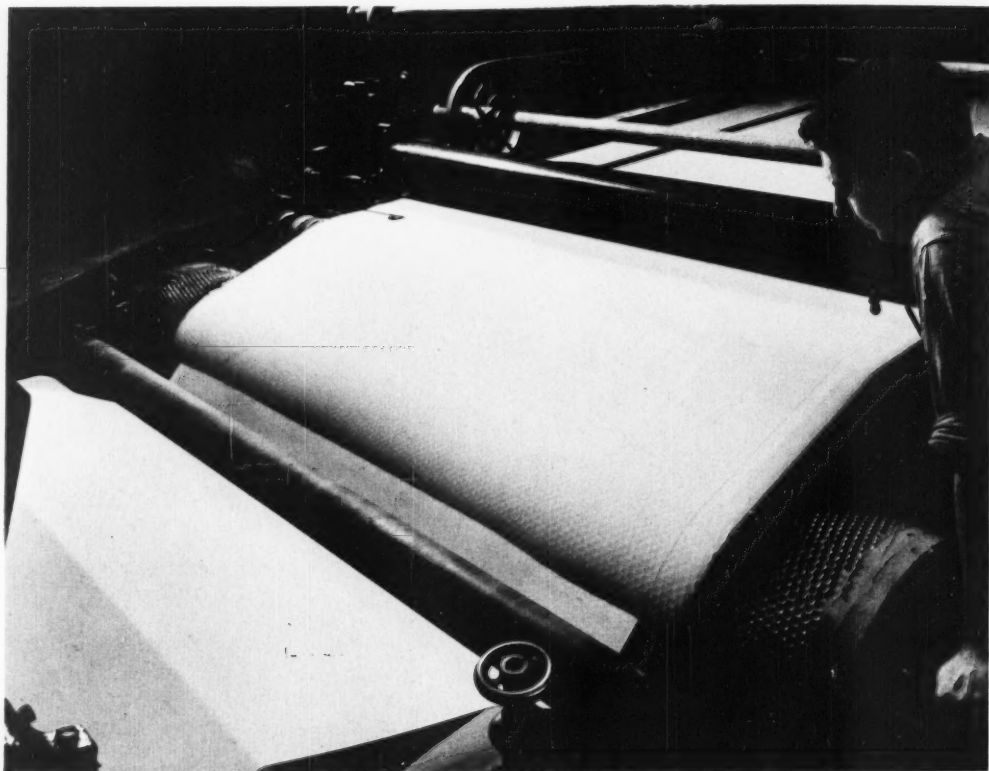
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See PAGE 6

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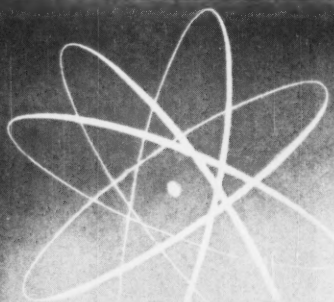
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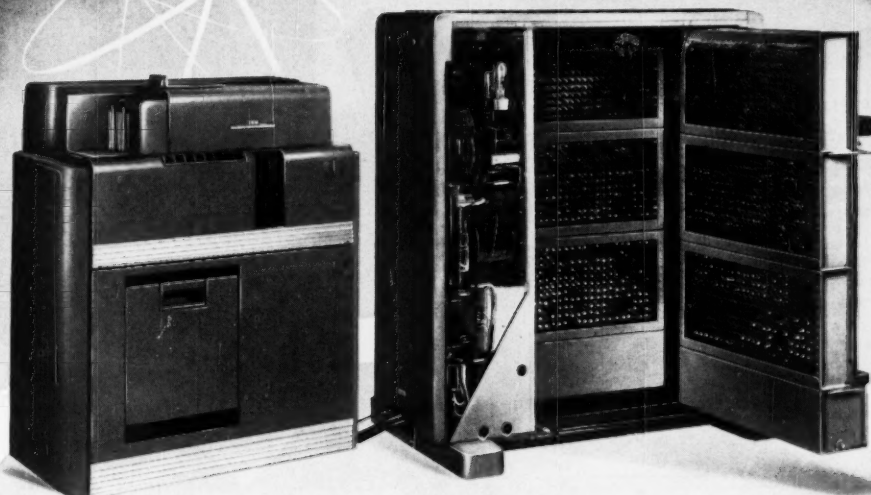
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DUN'S REVIEW (including *Dun's International
Review* and *The World's Markets*). June 1951.
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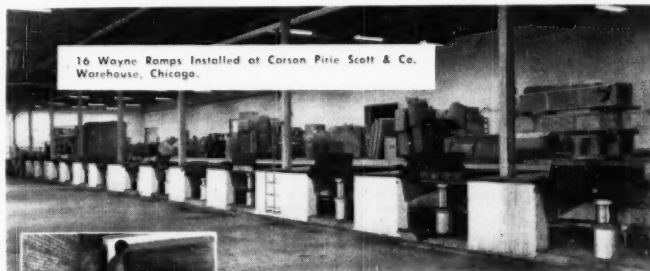
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FOR the second time in 110 years, DUN & BRADSTREET has built a building in downtown old New York City to house the New York District office, and to provide for executive offices and divisional operations.

The building, just completed, is a product of modern engineering and technical skills: air conditioned, acoustically treated ceilings, traffic-timed elevators, and with moving stairways to and from the first basement to the fifth and intervening floors.

Over a mile of conveyor systems, vertical and horizontal, dispatch and route mail and work forms within and between departments at high speed and with unflinching mechanical accuracy.

Sweeping stretches of fluorescent lighted floor space, wide aisles, and well-spaced desks provide for the free movement of the staff of 2,000. All operation areas have been designed for the highest degree of efficiency, at a minimum of fatigue.

The exterior of the building is of limestone, classic in its

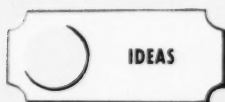
architecture and as simple and pure in form as a straight line. Free of embellishment or ornamentation, except for the Church Street entrance, the building rises sheer and clean towards the sky.

Above the Church Street, or main entrance, a bas-relief of the theme "Credit—Man's Confidence in Man" has been placed. The bronze relief, 11 feet wide by 12 feet high, finished in gold leaf and colored in rich umbers, is set in a shadow frame of stainless steel and carries a quotation from a speech by Daniel Webster delivered before the Senate of the United States, in Washington, D. C., on March 18, 1834.

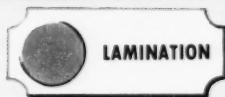
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The Editors

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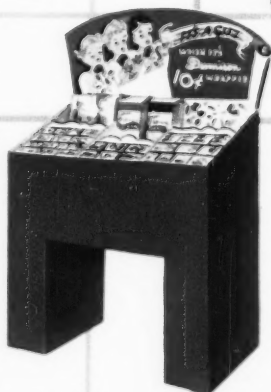
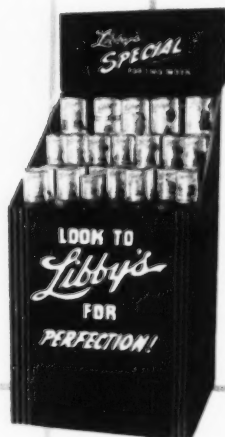
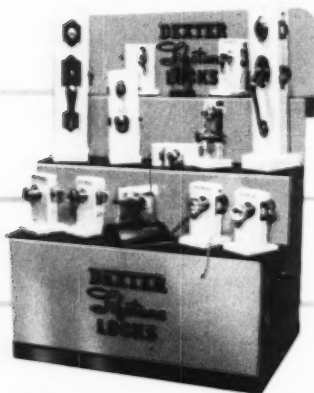
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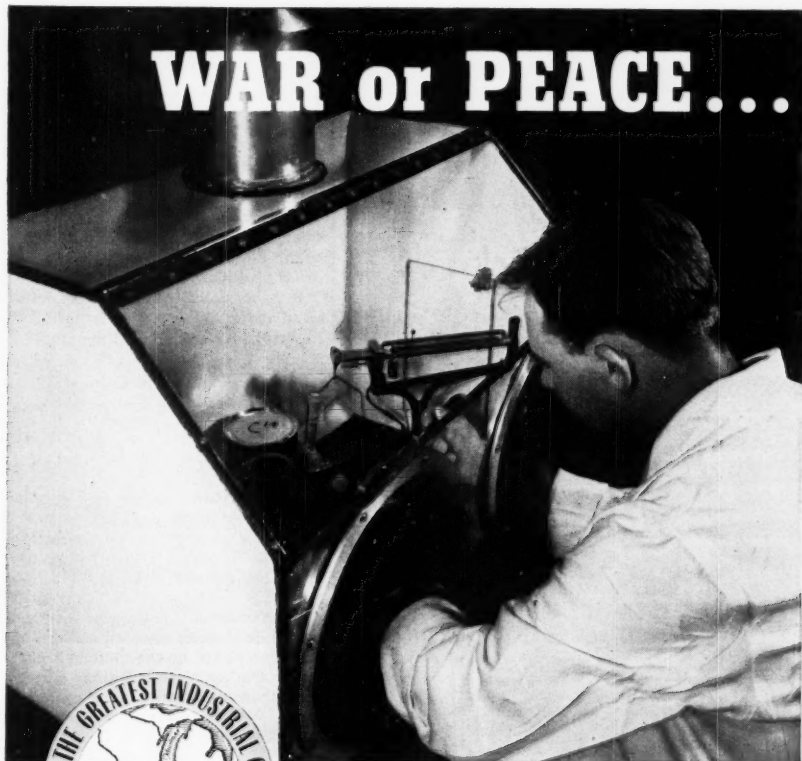
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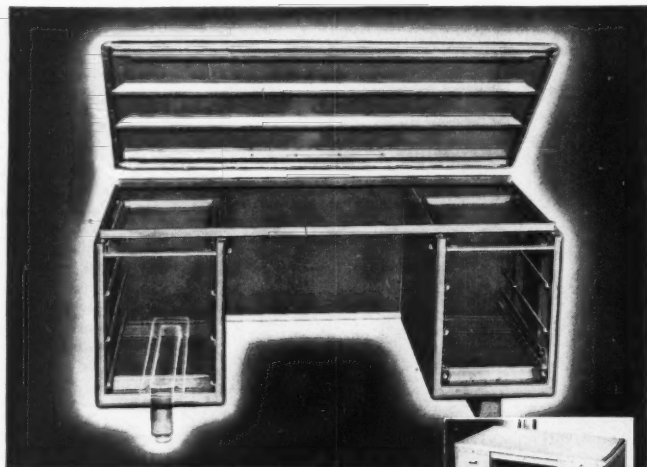
TERRITORIAL INFORMATION DEPARTMENT

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Letters . . .

TO THE EDITOR

NICE MAN COMETH

May we request your permission to reprint an item entitled, "I'm A Nice Customer," which appeared in your Letters to the Editor column in the March issue of DUN'S REVIEW.

It is our wish to publish this in our retail dealer house organ at as early a time as convenient to your approval. . .

R. A. Meader
General Petroleum Corp.
Los Angeles, Cal.

FARE DEAL

I wish to thank you for your co-operation with our purchasing department.

It has occurred to me that you perhaps might be interested as to why we have asked for this statistical data (on food prices).

We provide on a management fee contract basis in-plant food service for some thirty accounts in the Buffalo-Niagara Area. Our approach is entirely different from those operating on a concession basis. We are endeavoring to operate a co-op service built around a central commissary making available to the industrial accounts the advantage of pooled buying, central commissary preparations, specialized management personnel and accounting procedures.

Our aim is to provide food to the industrial worker at the lowest price possible on a break-even basis for our accounts.

We are trying to demonstrate that it is possible to have a two-way street between management and the Unions relative to their food service.

While it has been a most interesting development, we've had "problems" from both sides of the street.

From the data you have provided us we have been able to demonstrate to both management and the Unions that we are able to provide better value to-day when all price factors are recognized than was possible previously.

We therefore are very appreciative of your help—Thanks!

W. W. Cease, President
Cease Commissary Service, Inc.
Dunkirk, N. Y.

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We, as manufacturing sculptors, were extremely interested in an article in the April issue of your magazine.

The article from Here & There on page



State Tax Reports...



- State taxation once was easy. The property tax, a franchise tax, and a few license taxes made up the picture. But now all this is changed.
- New and drastic forms of taxation have been created, rates have skyrocketed, more and still more tax money is demanded. Today, as never before, correct, continuing tax information is vital to effective, economical business management. And not just at return time, but all through the year. Tax control must be carefully planned, plans constantly revised to match the swift pace of present-day tax changes.
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42 entitled, "Longer Life for Rubber" has served to provoke our interest in the plasticizer as developed by the Schwartz Chemical Company, Inc. of New York, N. Y., and we would appreciate further information about this product. . . .

John J. Oleksy, Office Manager
 The Mortens Studio
 Chicago, Ill.

IN POLITICS

Will you please send me 25 copies of your DUN'S REVIEW Supplement entitled, "Compass Points of Business," dated February 1951. . . .

You will be interested to know that several members of the House Ways and Means Committee had copies of this publication, and seemed to be very much impressed with its content.

Robert M. Burr, Secretary
 National Electrical
 Manufacturers' Association
 New York, N. Y.

Please send me fifty copies of "To-day's Need: To Develop Understanding of America's Miracles" by Leland Hazard, reprinted from DUN'S REVIEW of December 1950.

I want to mail one copy to each Ohio Congressman and Senator and to give one copy to each of my employees.

R. E. Schreder
 Airmate Company
 Toledo, Ohio

AGE OF ANXIETY

We received our copy of your new lithographed print of the "Peddler." When your original picture came out a year or so ago we provided our salesmen with a copy which they placed in their Sales Prospectus.

They are anxious to have copies of your new print for the same purpose. . . .

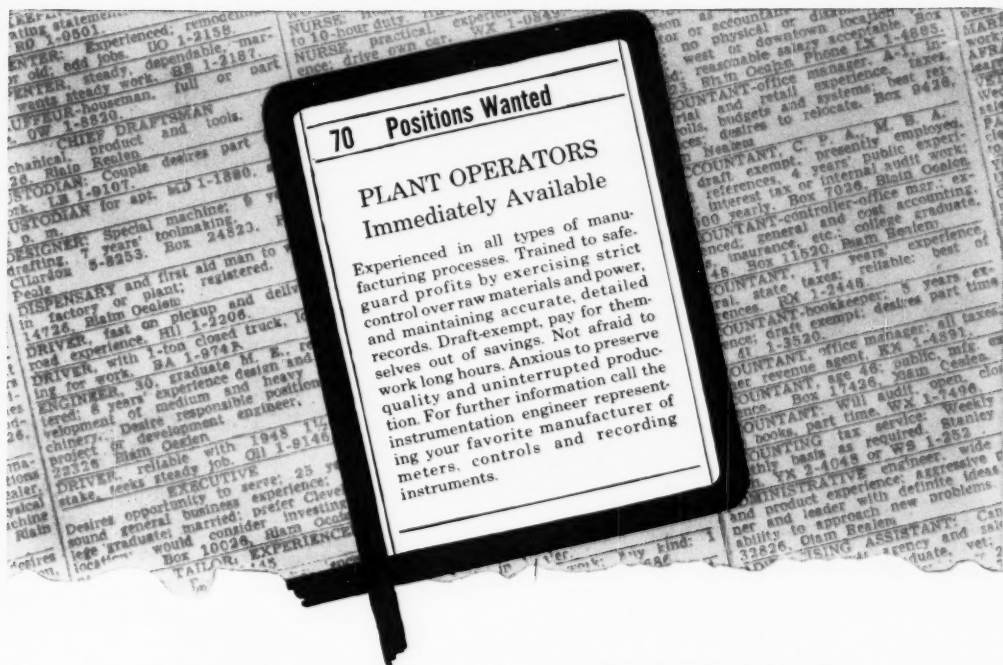
M. C. Phillips
 The Aluminum Cooking Utensil Co.
 Oakland, Cal.

I would be very grateful if you would send me a copy of your print "Old Peddler" as I am very anxious to have it.

J. D. Callahan
 Burleigh Brooks Co.
 New York City

Subject: Your famous "Old Peddler" I have seen this picture all over the State of Pennsylvania and I would like to have one. In fact I would like to have one for myself and one for the power to be in my home office in Philadelphia, Mr. A. B. Means, Sr. . . .

A. S. Gibbs
 U. S. Rubber Co.
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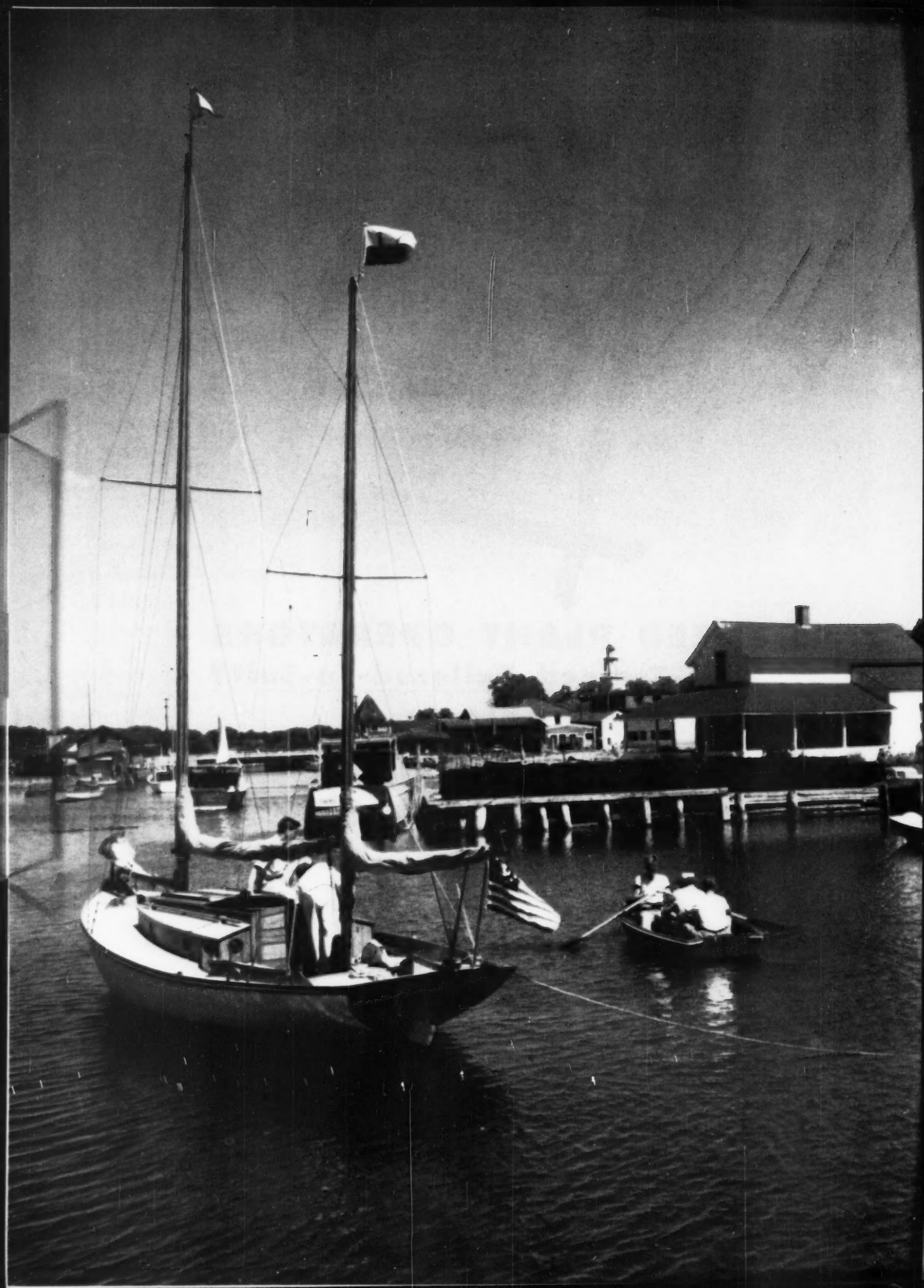
Truly, modern, precision instrumentation is management at its best—devoted to the safeguarding of quality and uninterrupted production, and the preservation of profits through economical control of power, raw materials and goods in process.

If you haven't investigated, lately, what a modernized, automatic system of meters and controls can mean in terms of manpower and materials savings, you owe it to your profit and loss statement to consult the instrumentation engineer who represents your favorite manufacturer of measuring and recording instruments. You'll find his name listed under "meters" or "controls" in the classified section of your telephone directory.

**This advertisement published as a public service by
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A sample copy of "INSTRUMENTS" will be sent on request

This advertisement was prepared by FULLER & SMITH & ROSS INC., Advertising Agency for ALUMINUM COMPANY OF AMERICA, BAILEY METER COMPANY, THE PARKER APPLIANCE COMPANY, PITTSBURGH ELECTRODYER CORP., WEATHERHEAD CORP., and WESTINGHOUSE ELECTRIC CORPORATION



EDITORS NOTE:

"To see ourselves as others see us. . . ." DUN'S REVIEW has asked a number of leading business executives to tell what they believe is important in the job of being president of a company. In a later number will appear a job analysis based on the experiences of all these contributing presidents; here is presented in its entirety one of the many replies so far received.

Behind the President's Desk

C. S. ALLYN, *President, THE NATIONAL CASH REGISTER COMPANY*

THE LESSONS TAUGHT BY EXPERIENCE ARE NOT EASILY FORGOTTEN. HERE ARE SOME THAT POINT UP THE JOB OF A PRESIDENT

1. Get out of your chair to find the facts and go to the right level to find them.
2. Having discovered what is wrong, take positive steps to correct it.
3. Cultivate the ability to select the right men to fill the important posts.
4. Make sure your product is up-to-date by assuming the responsibility for constant product development.
5. Recognize the importance of good human relations and the ability to get along with other people.
6. Polish up the Golden Rule and remember to use it.

*I*N MY EARLY days in business, I learned much about the fundamentals of management from John H. Patterson, founder of our company. He was not only an able executive but a great teacher. He was also a pioneer in his thinking about such things as human relations in industry, selling methods, and product development.

I had been with the company only a short time when I heard him tell a story which made a deep impression then and which has been helpful to me many times since. There were two lessons I learned from this story: get the facts and get them at the right level. This is his story as Mr. Patterson told it.

A year after he founded the company in 1884, Mr. Patterson entered the overseas field. He made good

progress until a fateful day when \$50,000 worth of cash registers came back from England because they would not add correctly. There is no room for error in building a product such as ours. It cannot be almost right, it must always give the correct answer. In those early days the return of those registers was a staggering blow. If he could not locate the trouble and correct it, Mr. Patterson knew very well that his business could not survive.

He also knew that it was not going to be easy to find out what was wrong. The product was well engineered, materials were good, there was no obvious reason why it shouldn't work. In characteristic fashion Mr. Patterson moved his desk out into the factory. He reasoned that if materials were good and engineering sound, the trouble must be in manufacturing. He

shortly found out what was wrong.

The factory was dark and dirty. Men sat on crates and boxes instead of stools. They ate cold meals. The water for drinking and washing was unclean. Discontent ruled at lathe and bench. Under those conditions men were not interested in doing good work.

Having discovered what was wrong he did something about it. Soon the first daylight factory in America was under construction, with 80 per cent of the wall space glass. That glass let in more than light. It let in some happiness and contentment as well.

Mr. Patterson learned much from that experience. He said, "In any business you need not only the handpower and headpower of employees, but their heartpower as well. You can buy handpower and headpower but you

(Continued on page 42)

CONFUSING ARE THE TIMES—OR SO THEY MAY SEEM WHEN TALK VEERS ONTO THE "FAIRNESS" OR "UNFAIRNESS" OF CORPORATE PROFITS. WHAT FALLACIES COMMON TO BUSINESS MEN, ECONOMISTS, AND LABOR LEADERS ALIKE LIE AT THE ROOT OF CURRENT CRITICISMS OF PROFIT? HOW CAN INVESTMENT YIELDS BE MORE REALISTICALLY INTERPRETED THAN THEY ARE IN CURRENT REPORTS?



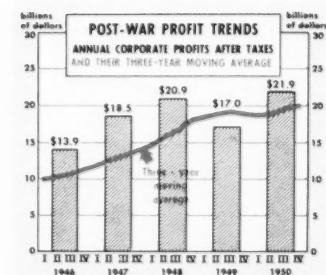
"These are very confusing times for our business."

What are "FAIR" Profits?

LYMAN P. HAMMOND

BUSINESS MEN have been urging each other to tell their story to the public for quite some time. Very good reasons why the stories should be told are fully apparent to anyone who reads the newspapers or notes the comments of labor leaders, of some high political authorities, and of quite a few economists in governmental and educational circles. Many of these comments have to do with the profits derived from business.

All too frequently they imply that those profits exceed amounts that ought to satisfy investors and attract the capital required for healthy growth on a sound basis. The public at large probably has little interest in the economic niceties involved, but to the man on the street excessive profits mean excessive



prices. That is a subject on which there is no apathy in any segment of the adult population at the present time.

The general impression that profits and prices are too high breeds ready support of such economic legislation as

"excess profits" taxation, stricter governmental regulation, and even that costly folly, "price control." It is, therefore, truly important that if profits and prices are no more than what is fair and reasonable the public be told so in terms that a person of average intelligence can understand.

At the outset, let me ask why so many business men tacitly accept the results of operation for one year as indicative of anything but a transient state of affairs. An established business seldom fails as a result of one poor year nor does it rate as a notable success as a result of an exceptionally good one, replete with large profits.

As for judging the faults or merits of business in general by a single year's profits, look at the variation in corpo-

TWO WAYS TO COMPARE PROFITS

(Year ended December 31, 1950; dollar amounts in thousands)

	NATIONAL BISCUIT CO.	GENERAL MOTORS CORP.*	UNITED STATES STEEL CORP.*
<i>1. To Stockholders' Equity</i>			
Preferred Stock	\$24,805	\$283,504	\$360,281
Common Stock	62,894	441,943	870,325
Surplus	39,797	1,062,771	784,502
Stockholders' Equity	\$127,496	\$2,387,378	\$2,015,168
Net Income	\$21,110	\$834,044	\$215,404
Net Income, as Per Cent of Stockholders' Equity	16.6%	35.0%	10.7%
<i>2. To Total Assets at Cost</i>			
Total Assets, as Reported	\$183,447	\$3,444,196	\$2,829,186
Res., Depletion & Depreciation	57,171	1,107,482	1,806,114
Total Assets, as Adjusted	\$240,618	\$4,551,678	\$4,635,300
Net Income	\$21,110	\$834,044	\$215,404
Interest & Other Debt Expenses	none	none	2,171
Gross Corporate Income	\$21,110	\$834,044	\$217,635
Gross Income, as Per Cent of Total Investment	8.8%	18.3%	4.7%

* and Subsidiaries, Consolidated.

rate profits after taxes during the past five years (see chart on page 16).

Here, in this relatively short period of time, we find a range of almost 1.6 to 1. By which one year shall we decide whether to condemn or to condone?

For a Truer Picture . . .

Despite the decrease in 1949 of 18.5 per cent from the profits of the previous year, the average of annual profits for the three years ended with 1949 was 5.7 per cent above that of the three years ended with 1948.

The jump in 1950 returns increased the profits for the three years ended with 1950 by 6.3 per cent above the average for the three years ended in 1949. Hence, given a short time in which to adjust for sporadic shifts in underlying conditions, corporate profits for the last five years have indicated a healthy, expanding economy and have neither been scant nor excessive.

In recent years some industrialists have argued that the extent to which profits are fair and reasonable should be measured by their relation to sales. This gauge has a limited usefulness in comparing profits from time to time within a particular industry, or

between groups of closely similar industries. It is almost meaningless when applied to dissimilar industries, to any group in which the activities of the constituents are diversified, or to business as a whole.

For instance, profits expressed as a percentage of sales of private manufacturing corporations ranged from 2.1 per cent for apparel and finished textile companies to 9.4 per cent for petroleum

and coal products companies. They were 5.8 per cent for all private manufacturing corporations in 1949 according to the *Economic Report of the President* for January 1951.

"Three Men in a Tub . . ."

Consider three important industries having very different financial characteristics, as reported in the *Statistics of Income for 1949*, and notice the great difference in the percentages their profits were of their sales that year.

In 1949 the receipts of electric and gas utilities amounted to \$6,749 million with profits totalling \$766 million or 11.3 per cent of sales; automobile and automotive equipment companies recorded \$15,455 million in sales, while profits, at \$1,345 million, constituted 8.7 per cent of sales; manufacturers of food and kindred products aggregated \$33,473 million in sales, while their profits were \$8.9 million or 2.5 per cent of the total sales figure.

Is anyone prepared to contend that this comparison indicates that the profits of the utilities are excessive? If so, how will he explain the increase of only 10 per cent in the market prices of typical public utility common stocks from pre-war days to April this year in contrast to the increase of 70.7 per

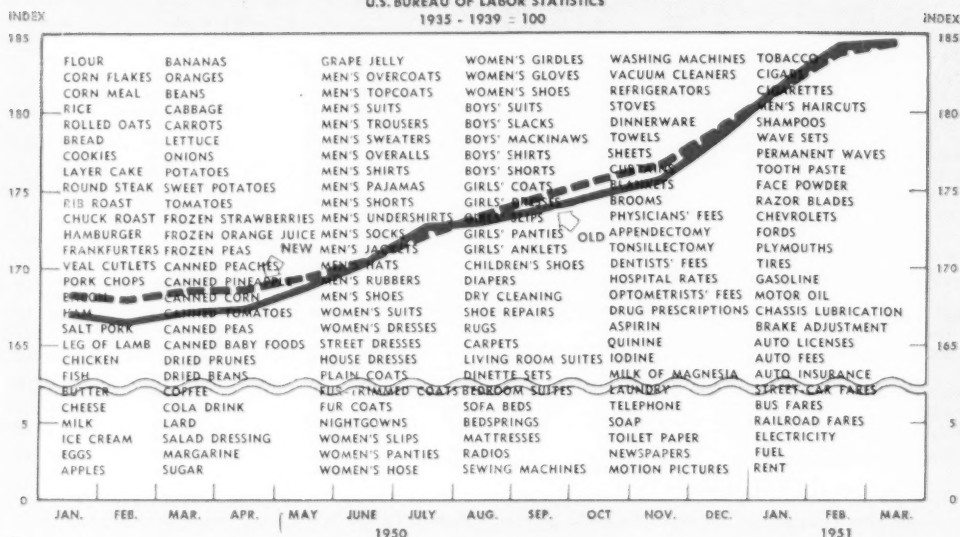
(Continued on page 58)

OPERATION SCRUTINY, GENERAL ELECTRIC RESEARCH LABORATORY—DEANBY PHOTOGRAPH



Amid swirling fumes of his laboratory a latter-day alchemist seeks new ways to apply the inner workings of the atom to industrial techniques. Investment in research may reap profitable returns, but yield rates would be indicative rather than conclusive of the fairness of profits.

THE NEW AND THE OLD PRICE INDEX U.S. BUREAU OF LABOR STATISTICS 1935 - 1939 = 100



Four Changes in the Cost-of-Living

EWAN CLAGUE

Commissioner of Labor Statistics
U. S. Department of Labor

*Y*OUR MONEY AND YOUR LIFE! THE BUREAU OF LABOR STATISTICS IS INTERESTED IN BOTH. AMERICAN FAMILIES DON'T LIVE THE SAME AS BEFORE THE WAR. DIFFERENT SPENDING PATTERNS AND NEW PRODUCTS ARE NOW WEIGHED ALONG WITH PRICES IN THE NEW CONSUMERS' PRICE INDEX. AND THERE ARE SOME CHANGES STILL TO BE MADE.

*T*HE Consumers' Price Index of the Bureau of Labor Statistics (formerly and still popularly called the Cost-of-Living Index) has become one of the most important statistics in the United States, if not in the world.

There are many other key statistics—production, employment, and others—but under the economic conditions of the United States in 1951, this index of prices of goods and services bought by consumers is of strategic importance.

In fact, throughout the western world this type of index has become identified with the fundamental economic issues of prices, wages, and inflation. It was in recognition of this vital significance of the index that in 1949 a major three-year program of revision of the index was proposed by the Secretary of Labor and adopted by the Congress.

The index in its present form was first developed in World War I primarily to help determine wage rates in wartime industries, particularly shipbuilding. Prior to that war, the Bureau had had a series of food indexes for a

number of cities throughout the country. However, since food was only one item—even though an important one—in the living costs of a wage earner's family, it was necessary for wage-setting purposes to have an adequate coverage of other items as well.

A comprehensive survey of expenditures of wage earner families was made in 1918-1919 in order to develop a "market basket" of consumer goods which could be priced for the index. These family expenditures, which were reported by the families themselves to Bureau agents, furnished the basis for assigning "weights" to different items and groups of items that were included in the family budget.

The weight is simply the means of representing the importance of each item in the budget. For example, the average family buys both meat and salt,

but the importance of meat is much greater than that of salt in family expenditures. It was on the basis of family expenditures as shown in this 1918-1919 survey that the index was calculated for the next 20 years.

By the middle 1930's it was clearly evident that the old World War I patterns of family expenditures were no longer wholly sound for purposes of index making. Families were buying differently in 1935 than in 1918.

These changes were due not only to the shift from prosperity to depression, but also to the normal changes in people's living habits that arise through economic progress—new commodities, better quality, different tastes. Accordingly, in 1934-1936 the Bureau made another comprehensive survey of family expenditures and, on the basis of this, completely revised the index.

The sharp contrast between the revision of the index in those quiet days with a similar revision to-day can be vividly portrayed by a few simple examples. In those pre-war days the index was published once every three months. It was issued about two months after the end of the quarter to which it referred. It changed very little from year to year. Over the whole five-year period, 1935-1939, it did not fall below 97 nor rise above 104. When the revision was completed in 1940, the index was revised back into the past, and was shifted to a 1935-1939 base.

There were many important technical decisions made in the course of that revision, but no great questions of public significance arose from management, from labor, or from the general public. This did not mean that the index was not widely used for general economic purposes as well as for collective bargaining; it was used for both such purposes. However, the index served primarily as background information and was usually cited as one of the important factors in the nation's economic life.

Wartime Controversy

In spite of the fact that the index was modernized and revised, it did not escape controversy during World War II. Issues arose in a wartime controlled economy because wage stabilization policy was based partly upon the behavior of the Consumers' Price Index. The issues which arose related chiefly to questions as to whether the index properly measured all the factors that should be taken into account in determining wages.

At that time the index was thoroughly reviewed by a committee of the American Statistical Association, and later by a special committee appointed by the President of the United States. The conclusions of both committees were that the Bureau of Labor Statistics was doing a creditable job under wartime conditions, and that the index

itself was "a good approximation" of price changes affecting the cost of living of wage earners in large cities.

The President's Committee made estimates of the understatement due to factors that were not measured adequately due to the wartime conditions, such as quality deterioration, over-ceiling prices, and so on. These estimated additional index points were used in wage determinations. The American Statistical Association Committee made a series of recommendations for the long-run improvement of the index and these became, from that time on, a guide to the Bureau in its efforts to improve the index.

When price controls were taken off in the Summer of 1946 and prices surged upward for the next two years, the index, of course, recorded these changes. It reached an all-time high in August and September 1948. Then it drifted downward in the recession of 1949. It was after this post-war peak had been reached that the Bureau began its proposals for a major post-war revision of the index.

There was urgent need to put the index on a post-war basis for the decade of the 1950's. Furthermore, this seemed a most opportune time to make a revision. In the light of prospective economic conditions in the early months of 1949, comparative price stability over the next several years was rather generally expected, with only minor declines and occasional increases in consumer prices. Those are the easiest circumstances under which to make revisions of the index.

Accordingly, a plan for a three-year program of revision was presented to the Congress and approved by it. This program is now nearing completion of its second year. Housing studies have been completed. Family expenditure surveys are now under way in 91 cities throughout the country. Price surveys are also being conducted to help us select the cities, stores, and commodities that will provide an index which is a sensitive and accurate measure of average price changes. Next year the sur-

Exotic scenes and romantic songs pave the way for the master salesman to bring you a new product or a different way of living. Through the added eye of television we are seeing things that will change to-morrow's pattern of life, and we need a new yardstick to measure these changes.



veys must be analyzed and a great deal of work done in preparing the new index. The goal is the establishment of a revised index some time in the second half of 1952.

This orderly program of revision was interrupted by the outbreak of the Korean war in June 1950. Not only did this catch the Bureau in the midst of its revision program, but it also changed the whole picture. Instead of comparative price stability, the prospect was for substantial price increases. Instead of a free market economy, there was the likelihood of wartime controls. And finally, Congress, in its consideration of the Defense Production Act, gave strong indications of the importance which would be attached to the Consumers' Price Index as a guide to the establishment and maintenance of price and wage controls.

Accordingly, the Bureau made the decision that, without waiting for the Autumn of 1952, it would make an interim revision of the index, to be completed as soon as possible. After consultation with the Bureau's Labor, Business, and Statistical Advisory Committees, this unexpected task was undertaken, and with the help of a lot of overtime by the Bureau's price staff, it was completed in early 1951.

The new index, called the Adjusted Index, was made available for January 1951, and carried back to January 1950. This is the adjusted series which is issued now each month by the Bureau.

At this point there is need for a brief explanation of the nature of this interim readjustment of the index. It is not the major revision, which is still scheduled for 1952. The 1951 readjustment does not deal with some of the fundamental problems which will be involved in the major revision—for example, whether and how to include home ownership costs along with rent in the housing component of the index.

The purpose of this recent revision was to furnish an improved index for the mobilization emergency as a guide to the administrative agencies of the Government and to the Congress in

decisions relating to public policy concerning economic controls.

In summary, there were four significant changes made in the index: first, a correction to offset the downward bias which had previously existed in the rent index; second, the introduction of some new commodities which are significant in the post-war buying of families to-day; third, a readjustment in the item and group weights to reflect the changed proportions which families are now spending for food, medical care, and other items in the family budget; and, fourth, an adjustment for the 1950 populations of the various cities in the index.

Effects on the Index

How do these various changes affect the index? The rent correction raised the index, since it adjusted the rent figures upward on the basis of evidence collected in the first year of the Bureau's revision. The reasons for the development of a downward bias in the rent index were fully described in the *Monthly Labor Review* for December 1948 and February 1949. The nature of the adjustment to correct this bias is described in the *Monthly Labor Review* for April 1951.

For our purposes here it is sufficient to indicate that, under rent controls, the Bureau did not measure the effect

of the difference between rents for old dwellings and rents for new dwellings when they were first rented. Since the latter rented at far higher levels than the controlled dwellings, these differences needed to be accounted for to reflect the true average rise in rent since pre-war days.

This calculation was made and it was discovered that the ten-year accumulated correction amounted to 6.8 points on the rent index for January 1950, which in turn amounts to 1.3 points in the whole Consumers' Price Index. This amount was added to the index in January 1950 (which was the date when the dwelling unit surveys were made by the Bureau). So the old uncorrected index for January 1950 was 166.9; the new adjusted index became 168.2.

The second change consisted of adding some two dozen new commodities to the index (none were dropped). These consisted of such items as frozen foods, cola drinks, television sets, and others. The Bureau previously had about 200 items priced in the index. These new commodities do not have as much influence on the index as the number might indicate. The important items were already among the 200.

In general, the new commodities will tend to make the index in the future somewhat more stable, particularly
(Continued on page 44)

Frozen foods mean a different diet for many Americans. Since this infant industry has leaped to manhood families are finding their food buying has forsaken some of the seasonal patterns. New products, packaging, and marketing methods have changed the way the family food dollar is spent.





IN MORE THAN 200 COMMUNITIES THE SCHOOLS HAVE CLOSED FOR THE DAY WHILE THE ENTIRE SCHOOL PERSONNEL HAS BEEN TAKEN ON CONDUCTED TOURS THROUGH LOCAL FACTORIES

AND COMMERCIAL ESTABLISHMENTS. BUSINESS EXECUTIVES IN NUMEROUS TOWNS HAVE PAID RETURN VISITS TO THE SCHOOLS—PHOTOGRAPH FROM FAIRBANK BEARING COMPANY, NEW BRITAIN

NEW BRITAIN, CONN., WAS A PIONEER IN CONDUCTING A "BUSINESS-INDUSTRY-EDUCATION" DAY. SUCCESS OF THE PROGRAM IN THIS HARDWARE MANUFACTURING CENTER WAS INSTRUMENTAL IN CAUSING THE MOVEMENT TO SPREAD TO ALL PARTS OF THE COUNTRY. THROUGH TOURS HELD ON A COMMUNITY-WIDE BASIS BUSINESS MEN AND TEACHERS ARE LEARNING EACH OTHER'S PROBLEMS.

CLOSER CO-OPERATION

between Business and Education

A. L. WHITE

FIRST IN ONE place then another, business men and industrialists, in order to show what has been done and is being done by American business, are striking deep down to the roots by getting educators to help them. They are really reaching the source of solid public opinion.

The time is ripe for this co-operation, as many social workers, teachers, and other educators are becoming deeply concerned with the question of preparing young people to take their places in the world of work and citizenship.

General and abstract discussions are rarely effective, but concrete evidence, clearly pointed out, can and does bear fruit. This is so in the case of Tony, a little bootblack in New York's financial district. Tony seemed interested in economics. He would often discuss complex questions as he diligently ap-

plied his brush to putting a fine polish on a customer's shoes.

It was puzzling to figure out how Tony got his sound ideas although the answer was rather obvious. They were acquired by listening to the business men who were his customers. The impressions made upon this little bootblack suggests possibilities. If he could pick up ideas so readily why couldn't others, possibly better educated and more influential, do so also?

The movement started in the Middle West. So that secondary school teachers and principals might become better acquainted with the industrial world, two years ago Professor Carl M. Horn, Michigan State College, introduced "Flying Classrooms." In a chartered plane he conducted a tour of teachers to visit business houses and factories in various localities in the Middle West.

The participants say that they gained a new and much needed insight into American business. They received practical knowledge about the problems of industry and industrial production, and the value of the great industrial plants to the economy of a community.

But not enough people could profit by the idea of these "Flying Classrooms." Consequently, the whole plan has been gradually expanded into what is termed "Business-Industry-Education Day," BIE Day for short. On one day in the year the schools of a town are closed so that the whole school body from teachers to janitors may visit the industrial plants of the community. The first such day was held on March 15, 1949, in Lansing, Mich.

During the past two years in the
(Continued on page 51)

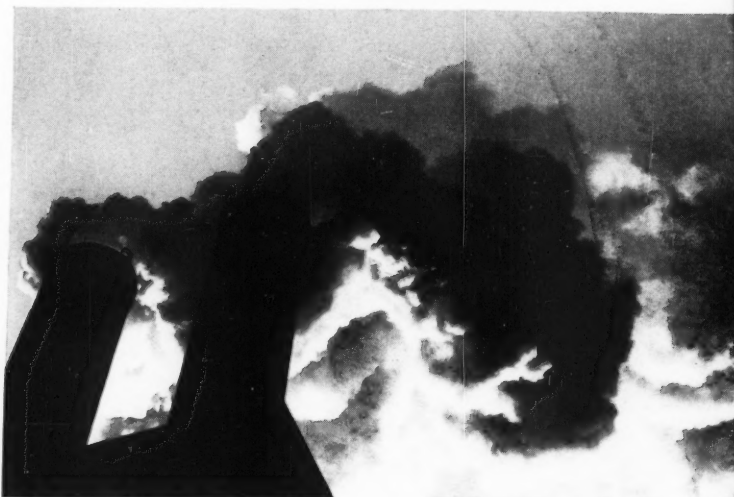
Why Do Businesses Fail?

GRIFFITH M. JONES

Assistant to the President
DUN & BRADSTREET, INC.

THIS IS ANOTHER IN THE SERIES OF STUDIES PUBLISHED QUARTERLY IN DUN'S REVIEW. THIS SERIES IS BASED ON A CONTINUING SURVEY OF THE REASONS FOR BUSINESS FAILURES.

These man-made clouds have a silver lining. The smoking chimneys of industry are better, perhaps, than statistics at showing the success of American business. As a further reflection of successful operations, failure figures for the country have remained low. The relatively high failure rate in some sections generally resulted from sharp increases in the number of new businesses among which mortality is usually high. —Lancet photograph from Deraney.



Classification of Causes of BUSINESS FAILURES in all Lines

FIRST QUARTER 1950		FIRST QUARTER 1951		YEAR ENDED March 31, 1951		UNDERLYING CAUSES	APPARENT CAUSES	FIRST QUARTER 1950	
Number	Per Cent	Number	Per Cent	Number	Per Cent			Number	Per Cent
180	7.0	130	6.2	483	5.6	NEGLECT: <i>Due to</i>	Bad Habits	55	2.1
							Poor Health	97	2.5
							Marital Difficulties	20	0.8
							Other	38	1.5
115	4.5	93	4.4	323	3.7	FRAUD: <i>(On the part of the principals, reflected by . . .)</i>	Misleading Name	—	—
							False Financial Statement	27	1.1
							Premeditated Overbuy	5	0.2
							Irregular Disposal of Assets	70	2.7
435	17.0	317	15.0	1,344	15.4	LACK OF EXPERIENCE IN THE LINE LACK OF MANAGERIAL EXPERIENCE UNBALANCED EXPERIENCE*	Other	13	0.5
426	16.6	332	15.8	1,321	15.2		Inadequate Sales	1,037	40.5
378	14.8	281	13.3	1,140	13.1		Heavy Operating Expenses	258	10.1
939	36.7	883	41.9	3,766	43.2		Receivables Difficulties	250	9.8
						INCOMPETENCE	Inventory Difficulties	312	12.2
							Excessive Fixed Assets	277	10.8
							Poor Location	119	4.7
							Competitive Weakness	434	17.0
46	1.8	35	1.7	128	1.5	DISASTER: <i>Some of these occurrences could have been provided against through insurance</i>	Other	158	6.2
							Fire	19	0.8
							Flood	—	—
							Burglary	6	0.2
40	1.6	35	1.7	204	2.3	REASON UNKNOWN	Employees' Fraud	2	0.1
2,559	100.0	2,106	100.0	8,709	100.0		Strike	6	0.2
							Other	13	0.5
							Because some failures are attributed to a combination of apparent causes, the totals of these columns exceed the totals of the corresponding columns on the left.		
38.6		32.4		32.6		FAILURE RATE FOR EACH PERIOD**	CURRENT LIABILITIES	\$76,492,000	
				2,519,388		NUMBER OF LISTED NAMES AT END OF 1950 #	AVERAGE LIABILITIES PER FAILURE	\$	29,891

* Experience not well rounded in sales, finance, purchasing, and production on the part of an individual in case of a proprietorship, or of two or more partners or officers constituting a management unit.

** Annual rate of failures per 10,000 listed names.

The total number of names was obtained by an actual count of the names, excluding branches, listed in the Reference Book at the end of 1950.

BUSINESS FAILURES are industrial and commercial enterprises which have discontinued operations with a resultant loss to creditors; businesses involved in court actions such as receivership, reorganization, or arrangement which may or may not lead to discontinuances; and businesses reaching voluntary compromises with creditors which become a matter of public record.

CURRENT LIABILITIES include all accounts and notes payable and also all obligations, whether in secured form or not, known to be held by banks, officers, affiliated companies, supply companies, or the Government. They do not include long-term obligations held by the public. Offsetting assets are not included in the liability figures.

FAILURES BY REGIONS AND STATES

REGION AND STATE	NUMBER OF FAILURES			RATE OF FAILURES PER 10,000 LISTED ENTERPRISES		
	1940	1949	1950	1940	1949	1950
NEW ENGLAND	1,057	983	864	65.4	55.2	49.2
Maine	94	48	48	61.6	30.4	30.2
New Hampshire	50	28	47	48.4	27.3	46.7
Vermont	21	17	14	28.8	25.1	20.5
Massachusetts	565	595	500	68.3	65.5	57.1
Connecticut	241	179	166	73.3	46.8	42.5
Rhode Island	86	116	89	65.6	71.4	54.6
MIDDLE ATLANTIC	5,927	2,461	2,917	116.0	42.5	52.6
New York	4,351	1,555	2,151	168.3	51.1	75.5
New Jersey	646	366	346	78.3	39.2	38.1
Pennsylvania	930	540	420	54.7	29.8	23.5
EAST NORTH CENTRAL	2,424	1,747	1,416	51.8	32.9	27.3
Ohio	442	478	328	39.0	36.8	25.3
Indiana	178	83	62	29.4	12.6	9.2
Illinois	1,156	585	479	76.7	35.3	30.4
Michigan	361	337	280	45.6	33.9	29.7
Wisconsin	287	264	267	44.5	37.4	38.5
WEST NORTH CENTRAL	647	399	331	25.8	14.5	12.4
Minnesota	110	78	59	21.6	13.9	10.8
Iowa	139	60	46	28.1	11.7	9.0
Missouri	165	196	136	24.2	25.8	18.0
North Dakota	7	3	9	6.8	2.6	7.8
South Dakota	27	4	10	22.6	3.1	7.5
Nebraska	132	44	41	49.1	15.5	14.7
Kansas	67	14	30	19.9	3.7	8.1
SOUTH ATLANTIC	1,027	826	669	47.4	28.6	23.2
Maryland	114	167	152	37.1	49.4	44.2
Delaware	17	8	3	34.2	13.7	5.2
District of Columbia	22	42	18	21.1	46.2	20.5
Virginia	200	99	97	62.7	22.6	21.2
West Virginia	59	88	51	26.3	34.7	19.5
North Carolina	160	74	95	44.7	14.0	18.1
South Carolina	50	14	11	30.9	5.7	4.7
Georgia	215	125	94	69.5	27.3	21.5
Florida	190	209	148	57.5	41.7	30.7
EAST SOUTH CENTRAL	363	304	213	32.7	20.6	14.9
Kentucky	100	70	45	28.9	17.5	11.1
Tennessee	117	108	64	36.0	24.3	15.1
Alabama	73	75	59	31.0	20.9	17.2
Mississippi	73	51	45	36.3	18.6	17.3
WEST SOUTH CENTRAL	572	406	332	30.5	17.6	14.4
Arkansas	96	31	38	43.0	11.0	13.3
Oklahoma	162	55	47	45.4	14.5	12.6
Louisiana	38	111	66	13.6	30.0	18.2
Texas	276	209	181	27.1	16.3	14.1
MOUNTAIN	281	167	213	40.0	19.2	23.3
Montana	12	8	6	12.1	7.2	5.2
Idaho	30	9	19	34.8	9.2	18.2
Wyoming	20	5	4	41.7	9.0	6.8
Colorado	112	41	55	51.6	15.8	20.1
New Mexico	15	12	8	19.0	10.4	6.7
Arizona	28	52	70	43.4	53.5	69.9
Utah	46	26	34	54.1	25.2	31.3
Nevada	18	14	17	75.2	44.0	52.6
PACIFIC	1,321	1,953	2,207	65.0	76.0	88.1
Washington	161	120	211	44.9	28.0	51.5
Oregon	237	261	149	96.3	84.7	51.2
California	923	1,572	1,847	64.6	85.8	102.3
TOTAL UNITED STATES	13,619	9,246	9,162	63.0	34.4	34.3

of Business

FIRST QUARTER 1951		YEAR ENDED March 31, 1951	
Number	Per Cent	Number	Per Cent
34	1.6	142	1.5
69	3.3	214	2.5
15	0.7	55	0.6
12	0.6	82	1.0
1	0.0	7	0.1
18	0.9	49	0.6
8	0.4	38	0.4
60	2.8	191	2.2
6	0.3	38	0.4
961	45.6	4,112	47.2
101	4.8	820	9.4
197	9.4	810	9.5
219	10.4	919	10.6
272	12.9	998	11.5
166	5.0	371	4.3
318	15.1	1,142	13.1
96	4.6	497	5.7
16	0.8	57	0.7
2	0.1	6	0.1
4	0.2	14	0.2
3	0.1	12	0.1
2	0.1	9	0.1
8	0.4	39	0.3
\$55,346,000		\$227,137,000	
\$ 26,280		\$ 26,081	

THE TREND OF BUSINESS



DUNN PHOTOGRAPH

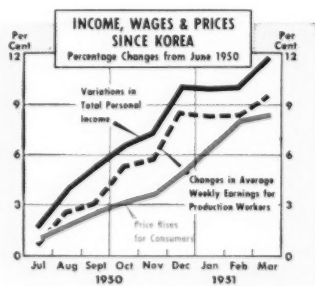
PRODUCTION
PRICES
TRADE
FINANCE

Production continued upward in May with the majority of basic industries marking moderate yearly rises. Prices and consumer incomes registered further increases. Retail spending was slightly above that of a month earlier, although store patrons remained hesitant in spending for appliances and other durables.

*L*OOMING just ahead, the second half of the year promised a notable change. The long awaited Controlled Materials Plan would become operative on July 1 to assure a steady flow of raw material for production. The main purpose of the plan was to provide an equitable distribution of materials for both military and civilian goods manufacturers.

Never in any first half had production of civilian merchandise soared to such heights as it had this year. Production of nonmilitary goods, comprising the larger portion of total output, formed a marked contrast to production in similar periods of World War II. At that time over-all output was higher, but most of it went into planes, guns, and tanks rather than refrigerators, ranges, and radios.

Production in May reached further



heights, although indications were that output was rising at a considerably slower rate than at the turn of the year. Most of the nation's basic industries continued to show substantial increases above year-ago levels. Steel output averaged 8 per cent above the May 1950 level, electric power production

was up 12 per cent, and crude oil output up 21 per cent. Automobile and bituminous coal production averaged 8 per cent and 6 per cent respectively below their year-ago comparatives.

In April the Federal Reserve Board's physical production index had remained at 222 per cent of the 1935-1939 average, the same as that of a month before. April steel output totalled 8.8 million net tons at an operating rate of 103 per cent of capacity. The value of all new construction was placed at \$2.4 billion, a new April record. The number of new housing starts dwindled to 88,000, off 34 per cent from a year ago, reflecting further material shortages and last Fall's Regulation X.

Employment For the first time since 1942 the civilian labor force declined between

Weekly Signposts of Activity

March and April. In most years a seasonal rise occurs, but this year's drop partly mirrored a normal post-Easter reduction in department stores' part-time sales help as well as a further absorption of available labor into the armed services. The dip in the labor supply was most pronounced among such skilled occupational groups as machinists, tool and die makers, sheet metal workers, and draftsman.

Despite a seasonal rise in the number of farm workers during April, total civilian employment dipped somewhat from the March level. At 60 million, however, it was a record for the month. In terms of percentage of the labor force it was 97.2 per cent, a distinct rise from the 96.6 per cent ratio of a month earlier. Unemployment meanwhile had dipped to 1.7 million, the lowest since October 1948 when it was 1.6 million.

Prices and Wages Incomes, wages, and prices have risen almost steadily since the beginning of the Red onslaught in Korea last June (see chart on page 24). By the beginning of the second quarter average weekly earnings of factory workers had risen 9.4 per cent and total personal income 11.7 per cent. The fact that prices paid by consumers had risen at a less rapid rate, 8.4 per cent, indicated that aggregate real incomes had also risen.

The pay envelopes of factory workers averaged \$64.36 weekly in March, 60 cents more than a month earlier, while hourly earnings rose less than 1 per cent to \$1.57. Total personal income, including proprietors' income, dividends, net interest, professional income, salaries, and net rents, reached an annual rate of \$242.5 billion. Both the earnings of production workers and personal income established new highs.

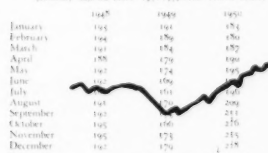
The weekly Wholesale Commodity Price Index of the Bureau of Labor Statistics registered 182.2 per cent of the 1926 average in the week ended May 15. It was 16.1 per cent above the pre-Korea level and 16.7 per cent above last year's level. Food prices rose slightly in the first half of May. On May 15

WEEKLY AVERAGES		SELECTED BUSINESS INDICATORS	LATEST WEEK	PREVIOUS WEEK	YEAR AGO	WEEK ENDED
1939	1950					
102	186	Steel Ingot Production Ten Thousand Tons	207	208	194	May 26
76	98	Bituminous Coal Mined Hundred Thousand Tons	97	96	97	May 19
69	154	Automobile Production Thousand, cars and trucks	153	145	172	May 26
31	62	Electric Power Output Hundred Million K.W.Hs.	66	66	58	May 19
65	75	Freight Carloadings Ten Thousand Cars	81	81	74	May 19
109	304	Department Store Sales Index Number	285	318	279	May 19
77	161	Wholesale Prices Index Number	182	183	156	May 15
74	237	Bank Debits Hundred Million Dollars	261	243	228	May 16
76	272	Money in Circulation Hundred Million Dollars	273	273	269	May 23
219	176	Business Failures Number of Failures	171	181	199	May 17

Sources: Amer. Iron & Steel Inst.; U. S. Bureau of Mines; Automotive News; Edison Electric Inst.; Amer. Assoc. of Railroads; Federal Reserve Board; U. S. Bureau of Labor Statistics; DUN & BRADSTREET, INC.

Industrial Production

Seasonally Adjusted Index: 1926=100 (Bureau of Economic Analysis)



† Approximation; figure from quoted source not available.

Consumers' Price Index

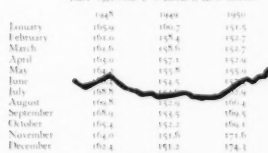
Index: 1926=100 (Bureau of Labor Statistics)



† Approximation; figure from quoted source not available.

Wholesale Commodity Prices

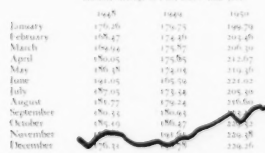
Index: 1926=100 (Bureau of Economic Analysis)



† Approximation; figure from quoted source not available.

Industrial Stock Prices

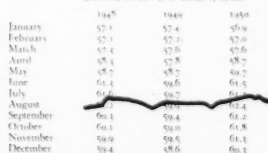
Monthly Average of Daily Prices: Dow Jones



Based on closing prices of 30 industrial stocks.

Employment

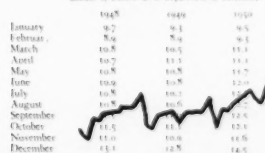
Millions of Persons: U. S. Bureau of Census



Includes all civilian workers

Retail Sales

Billion of Dollars: U. S. Department of Commerce



† Approximation; figure from quoted source not available.

Compass Points

	Year	Dec.	Year	Jan.	Feb.	Mar.	Apr.
Employment, Civilian	1948	59.4	1949	57.4	57.2	57.6	57.8
Million persons	1949	58.6	1950	56.9	57.0	57.6	58.7
	1950	60.3	1951	59.0	58.9	60.2	60.0
Unemployment	1948	1.9	1949	2.7	3.2	3.2	3.0
Million persons	1949	3.5	1950	4.5	4.7	4.1	3.5
	1950	2.2	1951	2.5	2.4	2.1	1.7
Farm Income	1948	2.7	1949	2.4	1.7	2.0	1.9
Billion dollars	1949	2.5	1950	2.3	1.6	1.7	1.6
	1950	2.7	1951	2.5	1.9	2.2	2.0
Consumers' Credit Outstanding	1948	14.4	1949	13.8	15.3	15.3	15.6
Billion dollars	1949	16.8	1950	16.4	18.1	18.3	18.6
	1950	20.1	1951	19.9	19.5	19.4	18.6
Gross Hourly Earnings of Industrial Workers	1948	1.40	1949	1.41	1.40	1.40	1.40
Dollars	1949	1.41	1950	1.42	1.42	1.42	1.43
	1950	1.54	1951	1.55	1.56	1.57	1.57
Weekly Earnings of Industrial Workers	1948	56.14	1949	55.50	55.20	54.74	53.80
Dollars	1949	56.04	1950	56.29	56.73	56.53	56.93
	1950	63.88	1951	63.71	63.76	64.36	64.36
Manufacturers' Sales*	1948	17.8	1949	16.8	18.2	18.5	17.6
Billion dollars	1949	15.8	1950	16.2	18.0	19.1	18.5
	1950	21.3	1951	23.2	22.7	23.4	23.4
Manufacturers' Inventories*	1948	32.3	1949	32.6	34.4	34.2	34.0
Billion dollars	1949	28.9	1950	29.0	31.1	31.1	31.2
	1950	34.1	1951	34.1	35.5	36.4	36.4
Wholesalers' Sales*	1948	8.2	1949	7.7	7.7	7.9	7.4
Billion dollars	1949	7.3	1950	7.2	7.6	7.7	7.3
	1950	9.0	1951	10.2	9.8	9.4	9.4
Wholesalers' Inventories*	1948	9.5	1949	9.5	9.5	9.3	9.4
Billion dollars	1949	9.0	1950	9.0	9.0	9.2	9.4
	1950	10.8	1951	11.0	11.2	11.4	11.4
Retailers' Sales*	1948	11.0	1949	10.6	10.7	10.7	10.8
Billion dollars	1949	10.5	1950	10.9	11.1	11.1	11.1
	1950	12.2	1951	13.3	13.1	12.3	12.6
Retailers' Inventories*	1948	15.0	1949	14.7	14.5	14.7	14.5
Billion dollars	1949	13.7	1950	14.0	13.9	14.3	14.1
	1950	16.8	1951	17.4	17.8	18.4	18.4
Physical Production Index*	1948	192	1949	191	189	184	179
1935-1939=100	1949	179	1950	183	181	187	190
	1950	218	1951	221	221	222	222
Freight Carloadings	1948	3.0	1949	2.8	2.8	3.3	3.1
Millions of cars	1949	3.1	1950	2.4	2.3	3.4	2.9
	1950	3.6	1951	3.0	2.7	3.8	3.2
Building Permits, 120 Cities	1948	228	1949	188	195	256	283
Million dollars	1949	249	1950	269	282	357	355
	1950	342	1951	366	261	350	290
Commercial and Industrial Failures	1948	531	1949	566	685	847	877
Number	1949	770	1950	864	811	884	806
	1950	679	1951	775	599	732	693
Liabilities of Failures	1948	31.7	1949	19.2	27.6	37.2	31.9
Million dollars	1949	19.3	1950	26.4	22.2	27.9	21.3
	1950	21.0	1951	21.7	16.0	17.7	17.1

* Adjusted for seasonal changes.

These figures bring up to date some of the series in "The Compass Points of Business" quarterly supplement to the May DUN'S REVIEW. The next quarterly supplement will appear in August.

the DUN & BRADSTREET Wholesale Food Price Index, at \$7.18, indicated a 20.5 per cent increase from the pre-Korea level, although it was still 1.8 per cent below this year's high reached last February. The index is the sum total of the wholesale price per pound of 31 foods in general use through the nation.

Wholesaling A further rise in military procurement during May cushioned an otherwise declining rate of wholesale order volume. Retailers, remaining apprehensive regarding inventories, demurred from making extensive new commitments with their suppliers. Although ordering remained nearly steady in the month, it was still amply above the level of May a year ago.

The Popular Price Shoe Show in New York triggered a flow of new orders for shoes; earlier in the Spring such ordering had been desultory. Other kinds of apparel were booked at a reduced pace after a brief flurry of last-minute reorders for Mothers' Day promotions at the beginning of the month. Advance bookings for Fall had not yet taken a firm root.

Transactions in the major textile markets of the nation increased with a marked new interest in fourth quarter contracts for many gray cloth constructions. Print cloths were widely booked for third and fourth quarter delivery, while spot demand for fine goods and carded broadcloths was somewhat more urgent than a month earlier. Synthetics volume was limited.

Summer's approach brought the usual seasonal upturn in buyer demand for small housewares, garden appurtenances, and draperies, although continued declines in the purchasing of larger home appliances brought total home furnishings volume to a level below that of the month before.

Retailing Retail credit restrictions, invoked last Fall by the Federal Reserve Board to temper the surge of inflation, were apparently having some of their desired effect. Having reached a peak of \$20.1 billion

"Hands off" FLYING SAVES LIVES!

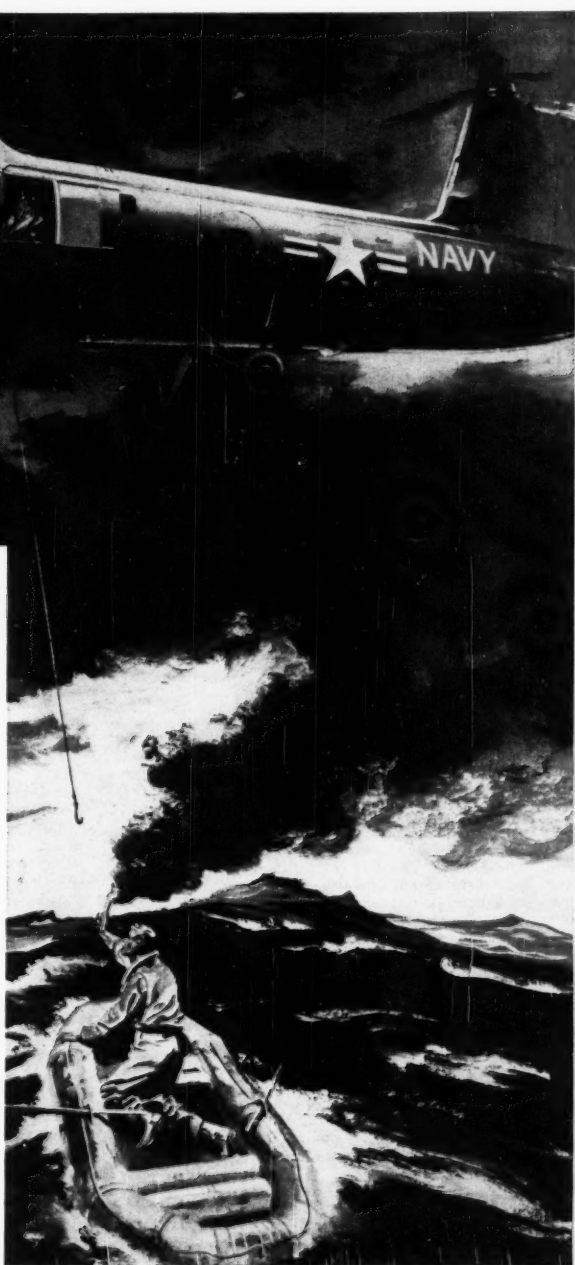
Pilot down! Another job for the Navy's famed air-sea rescue team. With the Piasecki HUP helicopter . . . equipped for "hands off" (automatic) flying . . . the Navy goes into action.

► The HUP is hovering while automatically stabilized by the Sperry A-12 Gyropilot*. Automatic stabilization greatly facilitates hovering over a target, as adjustments are then required only to correct for changes in wind drift.

► For the helicopter pilot . . . "Hands off" flying reduces pilot fatigue by freeing him from "flying" constantly with both hands and feet. He is free to concentrate on navigation, communications, rescue and submarine search duties while the automatic pilot takes over.

► For the Navy . . . Through the use of the Gyropilot, the HUP has full automatic stabilization in yaw, pitch and roll—the ultimate aim in the rotary wing field. Thus, military uses of the helicopter are almost limitless.

► On all missions, the Gyropilot greatly improves the ability of the helicopter to fly in reduced visibility, to maneuver automatically on take-offs and landings and to make automatically stabilized instrument landings through low weather ceilings.



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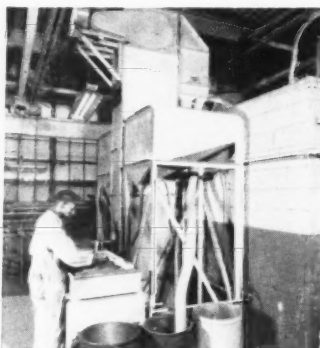
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Through flexible hoses to the molds, a continuous flow of shot is available from two large hoppers.

Shot instead of sand is used in making up these molds for multiple, non-ferrous castings. Originally, the shot was shoveled into the molding boxes by hand; it was a slow process and only a relatively few castings were produced.

Now, the Allied Bucket Elevator with magnetic separator provides an ample supply of clean, reusable shot, elevating it from the mold dump between the molding tables, separating out refuse matter, and returning it to the hoppers—a continuous cycle of handling and reusing the shot, which has enormously increased the production of castings.

The Shot Handling Bucket Elevator Conveyor is a fully automatic material handling unit, developed, built and installed by Allied.

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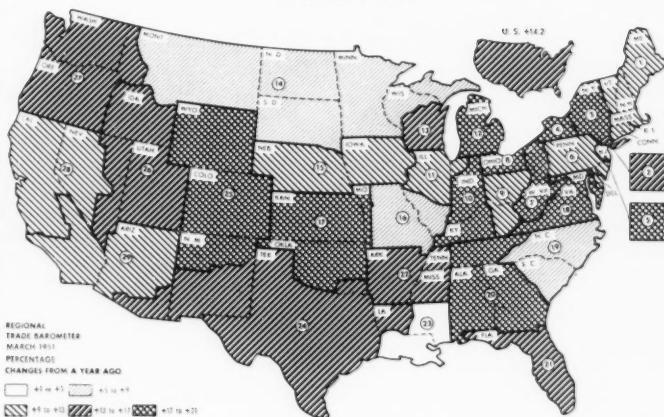
STEEL and CONVEYORS, INC.
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Complete Material Handling Systems
Designed • Fabricated • Erected

Regional Trade Activity

(1935-1939=100)



REGION:	Mar. 1951	Mar. 1950	% Change from Mar. 1951	Feb. 1951	REGION:	Mar. 1951	Mar. 1950	% Change from Mar. 1951	Feb. 1951
United States.....	540.8	+14.2	+4.2		19. Iowa and Nebraska.....	544.9	+4.8	+3.5	
1. New England.....	202.6	+14.0	+5.0		20. St. Louis.....	507.9	+7.8	+8.2	
2. New York City.....	275.0	+14.2	+6.8		21. Kansas City.....	564.0	+10.2	+4.0	
3. Albany, Utica, and Syracuse	323.7	+15.8	-4.9		22. Maryland and Virginia.....	345.8	+14.2	-4.7	
4. Buffalo and Rochester.....	316.4	+15.8	+2.7		23. North and South Carolina.....	542.5	+7.5	-0.5	
5. Northern New Jersey.....	262.4	+17.0	+3.8		24. Atlanta and Birmingham.....	424.4	+20.4	+4.4	
6. Philadelphia.....	410.4	+9.7	+2.4		25. Florida.....	554.4	+15.0	+4.8	
7. Pittsburgh.....	317.2	+15.2	+3.0		26. Memphis.....	433.6	+15.5	+4.9	
8. Cleveland.....	358.0	+20.5	-1.2		27. New Orleans.....	409.0	+1.8	+5.4	
9. Cincinnati and Columbus.....	344.9	+15.8	-1.1		28. Texas.....	406.3	+14.9	+0.1	
10. Indianapolis and Louisville.....	408.5	+17.3	+8.8		29. Denver.....	535.0	+12.9	+4.8	
11. Chicago.....	312.3	+12.0	-1.7		30. Salt Lake City.....	374.7	+15.8	+5.8	
12. Detroit.....	400.2	+20.3	+4.6		31. Portland and Seattle.....	561.8	+14.6	-1.2	
13. Milwaukee.....	364.4	+15.3	+0.6		32. San Francisco.....	451.1	+11.7	+1.4	
14. Minneapolis and St. Paul.....	317.0	+6.7	-10.3		33. Los Angeles.....	551.7	+11.8	-3.6	

at the end of 1950, total consumer credit outstanding has declined almost steadily since that time.

By April the figure had tapered to \$19.4 billion and a further decline seemed imminent as retailers reported an increasing reluctance of their patrons to purchase major appliances, used cars, television sets, and other durables that normally comprise the bulk of consumer installment buying.

In May the same reluctance persisted, although this was partially offset by increased soft goods buying. Sunny May skies over most of the nation coupled with promotions for Mothers' Day and forthcoming graduations and weddings sparked shopper enthusiasm for many apparel and accessory articles suitable for gifts. Summer dresses and sportswear were also bought in increased abundance in most localities.

The largest spending increases over last year's levels prevailed in the Midwest and South. According to the most recent (March) DUN'S REVIEW Regional Trade Barometers, consumers in the

Cleveland Region (8), Detroit Region (12), and the Atlanta and Birmingham Region (20) bought above 20 per cent more than they did last year.

The Preliminary Barometer for April, at 341.9 per cent of the 1935-1939 average, indicated that spending for the nation was 10.5 per cent above the April level last year. The barometer is adjusted for seasonal changes and the varying number of business days that occur in each month.

Failures A reduced number of business liquidations in April brought the total to 14 per cent below last year's level. At 693 they were 5 per cent less than the previous month's total and 21 per cent less than the post-war peak reached two years ago in May when they numbered 878.

DUN'S FAILURE INDEX, which extends the monthly failure rate to an annual basis and adjusts for seasonal fluctuation, remained at the March rate of 29 casualties per 10,000 listed enterprises. This rate compared with 33



Lesson from Lansing...for American business

The dateline was February 9, 1951:

MICHIGAN CRIPPLED BY \$4,000,000 FIRE IN STATE OFFICE BUILDING AT LANSING. VITAL RECORDS DESTROYED, DEPARTMENTS TEMPORARILY PARALYZED.

While the blaze was still raging, many a businessman was asking himself a solemn question.

Could American business—his business—risk similar paralysis through the loss by fire of the vital original and basic records which any business needs to stay in business?

Could the nation risk it—at a time when America needs its full industrial strength?

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HOW A \$20,000 INVESTMENT DID A \$250,000 JOB

Recently, a midwestern manufacturer was faced with a serious backlog of orders. To step up production, the company planned a \$250,000 revamping of its foundry.

A Trundle Engineering study put the finger on a more basic need—a properly conceived and executed *production control* plan. With this plan in effect, plus certain improvements in layout and organization, it was found that the required volume could be obtained with an expenditure of only \$20,000.

Delivery backlogs were reduced from eight to three months. Customer relations improved materially. And the company was able to keep \$230,000 in liquid assets, instead of tying it up in facilities.

For cost-minded executives: the savings made in operating costs of the Production Control Department alone, paid Trundle's fee in less than five months' time.

Trundle works as a "team" with your executive staff — on problems involving Management Methods, Marketing, Manufacturing, Engineering Research, Industrial Relations. May we give you more information on who we serve, and how we might serve your company? Write or phone The Trundle Engineering Co., 902 Bulkley Bldg., Cleveland 15, Ohio.

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32 YEARS OF CONSULTING SERVICE FOR MANAGEMENT

in April of last year and 35 in 1949.

Liabilities involved in April failures amounted to \$17.1 million, a slight drop from the previous month's \$17.7 million. All of the drop occurred in the \$5,000 to \$25,000 liability classification. Casualties involving \$25,000 to \$100,000 rose to the highest level so far this year. Failures with liabilities of less than \$5,000 were the only group to number more than their corresponding year-ago figure, but the rise was small.

Monthly decreases in business failures occurred in all industry and trade groups except manufacturing. Nearly all retail lines had fewer failures than in the preceding month, exceptions being in lumber and furniture lines. More than one-third of wholesaling

WHOLESALE FOOD PRICE INDEX

The index is the sum total of the price per pound of 30 foods in general use. It is not a cost-of-living index.

Latest Weeks	Year Ago	1948
May 15, 57.18	May 16, 56.89	High Feb. 29, 57.31
May 8, 57.18	May 9, 56.89	Low Jan. 2, 60.01
May 1, 57.14	May 2, 56.84	1949
Apr. 24, 57.16	Apr. 25, 56.85	High Dec. 26, 56.90
Apr. 17, 57.13	Apr. 18, 56.73	Low Jan. 4, 57.73

DAILY WHOLESALE PRICE INDEX

The index is prepared on the basis of daily spot closing prices of 30 primary commodities (1940=100).

Week Ended	Mon.	Tues.	Wed.	Thurs.	Fri.	Sat.
May 15, 1948	319.08	319.68	319.81	320.01	319.85	318.51
May 12, 1948	321.37	321.46	321.53	321.63	321.58	321.77
May 5, 1948	323.81	323.77	323.80	323.84	323.98	323.05
Apr. 28, 1948	322.62	322.68	322.84	322.91	322.96	323.06
Apr. 21, 1948	323.47	322.66	322.65	322.84	322.73	322.10

BUILDING PERMIT VALUES—215 CITIES

Geographical Divisions:	1951	1950	% Change
New England.....	\$22,374,369	\$19,627,615	+14.0
Middle Atlantic.....	\$8,074,603	\$8,742,842	-4.2
South Atlantic.....	\$2,519,070	\$1,869,051	+34.3
East Central.....	\$9,621,489	\$9,407,895	+2.3
South Central.....	\$8,467,098	\$9,215,152	-8.2
West Central.....	\$6,430,523	\$6,622,238	-2.8
Mountain.....	\$0,299,078	\$1,188,647	-75.0
Pacific.....	\$6,819,207	\$7,549,352	-9.5
Total U. S.....	\$122,503,130	\$145,028,666	-16.5
New York City.....	\$27,654,774	\$27,234,455	+1.6
Outside N. Y. City.....	\$345,454,350	\$168,235,201	+104.1

THE FAILURE RECORD

	Apr. 1951	Mar. 1951	Apr. P. C. 1950 Chg.*
DUN'S FAILURE INDEX*			
Unadjusted.....	31.0	31.2	35.0 -11
Adjusted, seasonally.....	29.3	28.9	58.0 -11
NUMBER OF FAILURES.....	693	732	8.6 -12
NUMBER BY SIZE OF DEBT			
Under \$5,000.....	173	170	173 -2
\$5,000-\$25,000.....	325	303	415 -15
\$25,000-\$100,000.....	145	147	150 -14
\$100,000 and over.....	25	24	549 -49

NUMBER BY INDUSTRY GROUPS			
Manufacturing.....	119	115	115 -4
Wholesale Trade.....	76	88	98 -18
Retail Trade.....	305	327	325 -8
Construction.....	81	84	75 -7
Commercial Service.....	52	61	44 -15

(Liabilities in thousands)			
CURRENT.....	\$17,064	\$17,562	\$21,250 -20
TOTAL.....	\$18,054	\$17,562	\$21,500 -19

* Apparent annual failures per 10,000 listed enterprises.

† Per cent change of April 1951 from April 1950.

failures were concentrated in the food trade. While construction and commercial service failures both numbered more than a year ago, decreases in other groups ranged from 8 per cent in retailing to 39 per cent in manufacturing.

The Middle Atlantic, South Atlantic, and Pacific States accounted for most of the April decline. Compared with the 1950 level, casualties were less numerous in all areas.

While rural and urban failures both declined in the month, failure liabilities in the 25 largest cities rose, in contrast to the prevailing drop elsewhere.

Of the April business failures, 75 per cent had been established for less than five years and one-half began operations within the last three years.

BANK CLEARINGS (Thousands of Dollars)

	1951	1950	% Change
Total 24 Cities.....	33,062,547	26,267,408	+27.8
New York.....	35,095,345	29,415,408	+22.1
Total 25 Cities.....	69,469,862	55,682,816	+24.8
Average Daily.....	2,275,744	2,327,313	+24.8

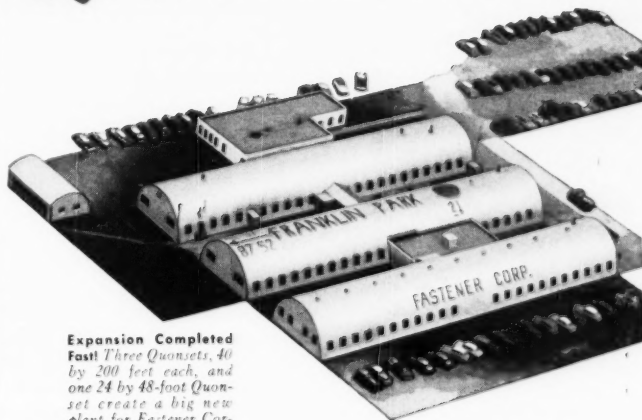
NEW BUSINESS INCORPORATIONS

Geographical Regions	Mar. 1951	Mar. 1950	Three Months 1951	Three Months 1950
New England.....	406	536	1,595	1,968
Middle Atlantic.....	2,719	3,424	8,297	9,539
East North Central.....	4,254	5,455	12,753	14,285
West North Central.....	594	474	1,080	1,278
South Atlantic.....	1,044	1,315	3,181	3,454
East South Central.....	214	119	564	354
West South Central.....	461	625	1,254	1,755
Mountain.....	519	394	919	959
Pacific.....	867	946	2,451	2,455
Total.....	7,649	9,189	22,754	25,086

FAILURES BY DIVISIONS OF INDUSTRY

	Number		Liabilities	
(Current liabilities in thousands of dollars)	Jan.-Apr. 1951	Jan.-Apr. 1950	Jan.-Apr. 1951	Jan.-Apr. 1950
MINING, MANUFACTURING.....	473	796	22,372	30,054
Mining—Coal, Oil, Misc.....	7	11	1,028	1,619
Food and Kindred Products.....	65	92	4,727	5,712
Textile Products, Apparel.....	106	164	2,458	6,227
Lumber, Lumber Products.....	71	134	2,567	4,307
Paper, Printing, Publishing.....	26	44	1,117	1,545
Chemicals, Allied Products.....	17	18	528	3,671
Leather, Leather Products.....	27	26	667	861
Stone, Clay, Glass Products.....	10	16	116	1,004
Iron, Steel, and Products.....	7	83	171	2,660
Machinery.....	46	97	3,872	5,369
Transportation Equipment.....	4	18	49	806
Miscellaneous.....	82	142	2,882	5,174
WHOLESALE TRADE.....	306	419	8,361	15,741
Food and Farm Products.....	98	107	2,973	5,642
Apparel.....	11	21	395	697
Dry Goods.....	10	8	206	202
Lumber, Bldg. Mats, Hdwr.....	23	49	799	2,724
Chemicals and Drugs.....	10	15	286	477
Motor Vehicles, Equipment.....	14	24	216	624
Miscellaneous.....	140	195	5,716	6,004
RETAIL TRADE.....	1,456	1,662	25,085	28,779
Food and Liquor.....	372	532	4,647	3,884
General Merchandise.....	58	84	1,110	1,301
Apparel and Accessories.....	247	299	3,892	5,797
Furniture, Furnishings.....	146	159	6,534	5,307
Lumber, Bldg. Mats, Hdwr.....	81	100	1,349	2,245
Automotive Group.....	99	125	1,572	3,112
Eating, Drinking Places.....	261	285	4,419	5,739
Drug Stores.....	39	41	422	672
Miscellaneous.....	152	167	2,049	2,723
CONSTRUCTION.....	321	309	10,181	7,939
COMMERCIAL SERVICE.....	245	245	5,511	6,229

Build Quicker with QUONSETS



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It contains time studies of output per cycle and per day, in slitting various widths, gauges, and coil weights.

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TUBE MILL MACHINERY

The Business Bookshelf

WHAT'S AHEAD FOR AMERICAN BUSINESS, by Sumner H. Slichter, Little, Brown & Co., 216 pages, \$2.75.

"THERE IS nothing permanent except change," observed Heraclitus in 500 B.C. That this still applies to our life to-day, including the way we do business, few would deny: it takes a brave man, however, to stick his neck out and offer to predict just what form these changes will take in the future. Mr. Slichter is doubly qualified for such a task, possessing not only courage, but one of the keenest economic minds of this generation.

How long will our defense economy last? What are the chances of peacetime expansion? Will socialism come to America? What's the future of small business? Will the unions become more political?—these and countless other questions are answered as only someone of Slichter's background can answer them.

Currently Lamont Professor of Economics at Harvard, Mr. Slichter had a varied training in every aspect of our

business system, from market theory to labor relations. Only such a broad concern with all points of view could bring forth such perceptive answers to our most important problems as are found in this volume.

BUSINESS CYCLES AND NATIONAL INCOME, by Alvin H. Hansen, W. W. Norton, 639 pages, \$6.75 (text-book ed.—\$5).

Dr. Hansen, probably the foremost authority in this country on Keynesian economics, has written a study of the business cycle which is unique for its wide appeal. Not only will students and the technically trained enlarge their knowledge of this interesting field through a reading of this book, but management will also find much here to apply to the very practical consideration of running a successful business in this world of rapidly changing conditions. In a word, *Business Cycles and National Income* is a readable application of the theory of fluctuations to individual business policies.

National income, aggregate demand, government outlays, the rôle of invest-

CURRENT READING

BOOK

HOW TO WRITE A SPEECH, by Edward J. Hegarty, McGraw-Hill, 226 pages, \$3.50.

THE BUSINESS MAN'S BOOK OF QUOTATIONS, by Ralph L. Woods, McGraw-Hill, 303 pages, \$4.

THE AMA HANDBOOK OF WAGE AND SALARY ADMINISTRATION, ed. M. Joseph Dooler and Vivienne Marquis, American Management Association, 416 pages, \$7.50 (\$5 for members).

READINGS IN LABOR ECONOMICS AND INDUSTRIAL RELATIONS, ed. Joseph Shister, Lipincott, 661 pages, \$5.

TAX SAVINGS IN REAL ESTATE TRANSACTIONS, Bureau of Analysis (Davenport, Iowa), 98 pages, \$5.

DIRECT PLACEMENT OF CORPORATE SECURITIES, by E. Raymond Corey, Harvard Business School, 223 pages, \$3.50.

FUNDAMENTALS OF GOVERNMENTAL ACCOUNTING, by Lloyd Morey and Robert P. Hackitt, John Wiley & Sons, 518 pages, \$5.50.

SUMMARY

A reading of both these books won't pump speeches, full-blown, into your lap, but their judicious use will do everything short of that. Mr. Hegarty's main contribution is an easily applied formula guaranteed to add interest and appeal to any type of address; the quotations compiled by Mr. Woods are alphabetically arranged according to subject and are excellent filler material.

A penetrating study covering every conceivable angle of this important issue, Wage problems pertaining to industrial mobilization and other matters of current interest are presented in the light of the combined experiences of two dozen experts.

Old timers like Slichter, Herberg, Paul Douglas, and Wright tangle with the problem of labor's share of the total economy in a free-for-all of short essays.

Sponsored by the National Institute of Real Estate Brokers, this down-to-earth treatise on federal taxation should prove of value to those in real estate.

A close student of American corporate expansion gives the low down on an important new development in financing techniques: the increasing reliance of many managements upon the private negotiation of securities.

Another addition to the famous Wiley series on accounting systems. This second edition emphasizes those features distinguishing governmental from private accounting.



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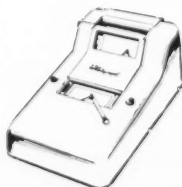
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ment, and so on—this is the stuff of which the book is made. Not only is much space given to tying in these aspects of cycle theory with present business conditions, but there are entire sections devoted to excellent summaries of the historical development of this theory. Each chapter abounds in charts and tables.

BLACK BONANZA, by Frank J. Taylor and Earl N. Welty. Whittlesey House, 280 pages, \$4.

This is the thrilling, often tempestuous, story of how the Union Oil Company of California grew from modest beginnings into the respected public service institution of to-day. It is also the story of the famed Stewart Family and of Lyman Stewart, Union Oil's founder, whose vision and sheer tenacity was the drive-wheel that pulled the organization through good times and bad.

Union Oil's enviable record of new well discoveries and constantly improved methods of refining and transporting is documented by hundreds of exciting photographs.

MILITARY MANAGEMENT FOR NATIONAL DEFENSE, by John Robert Beishline. Prentice-Hall, 289 pages, \$5.

The author, an army colonel with wide experience in industrial management, has gathered together a diversified set of defense procedures into a compact volume capable of quick reference. These procedures are essentially a blending of successful business practices with those forms of military organization most compatible with industrial methods.

A short history of the military uses for industrial management precedes thoroughgoing discussions of basic management problems as well as the many types of military planning with which defense industrialists should be familiar.

THE SOCIAL RESPONSIBILITY OF MANAGEMENT, by Stuart Chase, Stanley H. Kintzberg, Edwin G. Nourse, and William B. Goren, Jr. New York University School of Commerce, 83 pages, \$2.

No more befitting commemoration of the golden anniversary of the New York University School of Commerce, Accounts, and Finance could be

imagined than this series of lectures demonstrating the development of American business to its current stage of social awareness. Noted representatives of business, organized labor, and the academic world took part in this significant lecture series sponsored by the Edward L. Bernays Foundation during the Spring of 1950.

Out of the totality of views emerges a strong undercurrent of faith in the soundness of our general economic philosophy, although there are also ample, though healthy, displays of criticism concerning various details. The worthy purpose behind these lectures is explained in a foreword by Mr. Bernays himself.

THE CORPORATION INCOME TAX, by Richard Goode. John Wiley & Sons, 242 pages, \$3.

While somewhat on the technical side, this book deals with certain little-known ramifications of federal taxation which should interest tax experts, accountants, and a small proportion of general readers.

Among the topics covered are the effects of corporation taxes on such separate but interrelated parts of our economy as wages and prices, national income, employment, and political considerations. Many controversial questions, as the passing on of taxes to consumers, are examined from many points of view; included are tables showing comparative distributions of taxes and dividends on different economic levels.

Mr. Goode, formerly an economist with the Treasury Department and now editor of the *National Tax Journal*, also deals with the probable future effects of the corporation tax upon investment rates and savings.

THE LAW OF LABOR RELATIONS, by Benjamin Werne. Macmillan, 471 pages, \$5.75.

This is a complete and up-to-date guide to labor law that is designed for immediate reference on any specific problem that may arise. It is well indexed and documented with reprints of statutes and regulations.

In view of the many heated issues growing out of various interpretations of the so-called "Taft-Hartley Act," *The Law of Labor Relations* comes in most handily as a dispassionate arbiter.

8 FRUEHAUF TRAILERS AND 1 TRACTOR REPLACED 3 ENGINES AND 30 FLATCARS FOR SHIPBUILDER!



PROBLEM: Handling material for shipbuilding, e.g., over 2 million pounds of castings in 30 days, formed steel, 10 ton counterweights, etc., to be loaded, unloaded, moved and stored. A lack of efficiency in the use of a company-owned railroad, tugboats, crawler cranes and similar mobile equipment indicated the need for a better method of handling, in less time with less equipment and fewer men. Overall transportation costs approximated \$250,000 per year.

CONCLUSION: Two major changes were made. 1. The switch engines and railroad cars were replaced by Truck-Tractors pulling *Fruehauf Trailers*. 2. All mobile units were equipped with short-wave telephones.

RESULTS: One Truck-Tractor and 8 Trailers in a "shuttle" operation now do the work of 3 locomotives and 30 flatcars. Idle time in the transportation department has been cut 70% and twice as much work is being done by each vehicle.

BENEFITS: Four trucks rented at \$96 per day, plus four drivers, were eliminated—three train crews and equipment were eliminated. (One locomotive and a few flatcars are in intermittent service hauling extra heavy loads.) One Truck-Tractor with one driver moves each of the 8 Semi-Trailers an average of 4 times in an 8 hour day.

Radio control provides a more closely controlled traffic operation.

TOTAL SAVINGS: In the first 3 months of operation transportation costs were cut 15% (\$9,375). On this basis annual savings will total \$37,500. Labor overhead was cut \$1400 per month—an annual saving of \$16,800.

TOTAL ESTIMATED SAVINGS: \$54,300 per year!

NOTE: A confidential "Report to Management on Transportation" giving company names and additional information, is available free upon request—and without

obligation. Write (on your business letterhead) to Fruehauf Trailer Company, 10988 Harper Ave., Detroit, Michigan.

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HERE and THERE in BUSINESS

WHAT'S NEW AS OBSERVED BY THE AGENCY'S REPORTERS

Matchbooks—A novel way of getting distributors' salesmen to stress the company name has been devised by the Whirlpool Corporation, St Joseph, Mich., manufacturer of home laundry equipment.

These salesmen will receive in the mail for a year cartons of matchbooks whose inside cover is imprinted with the question: "Did I spend enough time selling Whirlpool to that dealer?"

The promotion effort is induced by the fact that while Whirlpool is an old concern, the name has been widely promoted only for the past few years.

Fire Safety—A full page is regularly devoted to fire safety in *The Link*, monthly employee publication of The Great Lakes Paper Company, Fort William, Ontario.

Drawing Board—Convenient for architects and engineers working away from the office is a lightweight portable drawing board, molded from a single piece of Bakelite styrene plastic.

Manufactured by the A. Partrick Company, Westwood, N. J., the "Graphostat Precision Board" is 9¾ by 12¾ inches in size. Four corner clamps for attaching 8½ by 11-inch sheets of paper eliminate the need for thumb tacks. The clamps are recessed so that a triangle or ruler can ride over them. The vertical and horizontal straight edges are retractable so that the triangles can be moved over the edges of the paper.

Recesses are provided under the board for storing triangles. The board itself may be easily carried in a brief case.



The new contact wheel for abrasive belt applications, developed by The Carborundum Company, has comparatively narrow lands, an angular relief gap between them, and, in general, an appearance similar to a milling cutter.

Improved Grinding—A new development in the metal-working field is credited with increasing the cut in grinding operations, prolonging the life of abrasive belts, and lowering operator fatigue.

The improvements stem from a new type of rubber contact wheel for abrasive belt application, introduced by The Carborundum Company after three years of research and development by the latter's engineers.

The way in which the new "61" wheel is serrated causes a controlled breakdown in the bond of the abrasive belt. The result is that glazing is reduced to such a degree that belt life is substantially increased.

While the principle of a serrated rubber contact wheel is not new, the narrowness of the lands, (contact surfaces), the relief angle of the serrations, and the increased distance between the lands are entirely new features. Based on the design of milling cutters, these factors are responsible for the increase in belt life and a higher rate of cut.

It is pointed out that the relief angle, the width of the lands, and the distance between them should be adjusted according to the particular application for which the belt is to be used. Standards already have been established.

A 100 per cent increase in abrasive belt life is claimed where the new wheel is applied. The abrasive belt does not load up with the material being ground. The relief angle of the

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Hertz serves every type of business

The Hertz Drive-Yourself System, with 25 years' experience, can serve every kind of business, with the right trucks for each specific job. Following are some of the many kinds of businesses now being served: Manufacturers & Distributors of Varied Products Department & Specialty Stores Florists Creameries & Dairy Products Building Supplies & Lumber Hardware & Plumbing Bakery & Confectionery Stores Drugs Laundries & Dry Cleaners Restaurants Meat & Fish Groceries, Fruit & Produce Newspapers & Printing Brewers & Beer Distributors Furniture & Rugs Steel & Electrical Paper Musical Instruments Beverages, Wine & Liquor.

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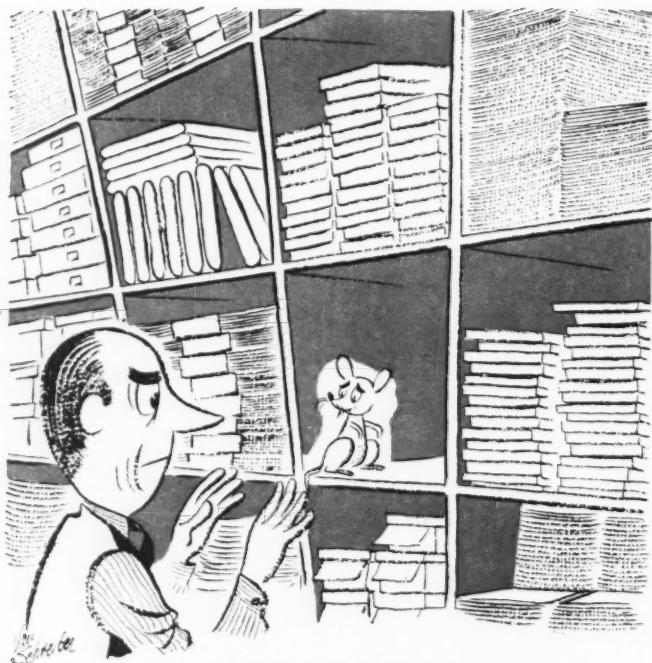


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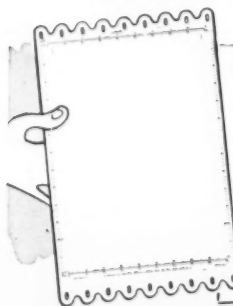


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serrations brings a flexing action which cleans the belt. Additional features are a cooler cut, a more uniform finish, and less rejection of parts.

While the advantages of the "61" wheel may open numerous new avenues for the use of abrasive belts, The Carborundum Company has employed it to date just with ferrous metals.

The wheels will be available through The Carborundum Company and all its industrial distributors. Customers wishing to convert their present rubber contact wheels to the "61" type may do so through The Carborundum Company.

Spraying Polyesters—Two solutions are sprayed at the same time and mixed externally as the material is atomized in a new paint-type spray gun marketed by the Schori Process Division, Ferro-Co Corporation, Long Island City, N. Y. The unit contains two pots and a spray gun with two nozzles.

It was created to handle materials which are stable in themselves but which cure quickly only when mixed with other materials. Materials can be employed which if mixed in a single pot would set even before they could be sprayed.

The gun can be used with any material which requires a catalyst to set it up. It is particularly suited for polyesters in low pressure laminating. The polyester is broken down into two parts for use with this gun; consequently each part can be maintained in liquid form. This eliminates the need for working with these polyesters quickly and in small amounts.

Supersonic Dictation—Unusual dictating machine uses, ranging from checking customers' clothes in laundries to recording the comments of a test pilot while trying out a new airplane, are reported for the "Audiograph," produced by the Gray Manufacturing Company.

In reading off laundry marks the operators wear doctors' type headbands to which small microphones are attached. This leaves the girls' hands free for their work and the microphone does not obstruct their vision.

Use of the Audiograph in test pilot.
(Continued on page 42)

“Trifles make perfection,
and perfection is no trifle.”

....*Michelangelo*



*A request on your letterhead will bring you
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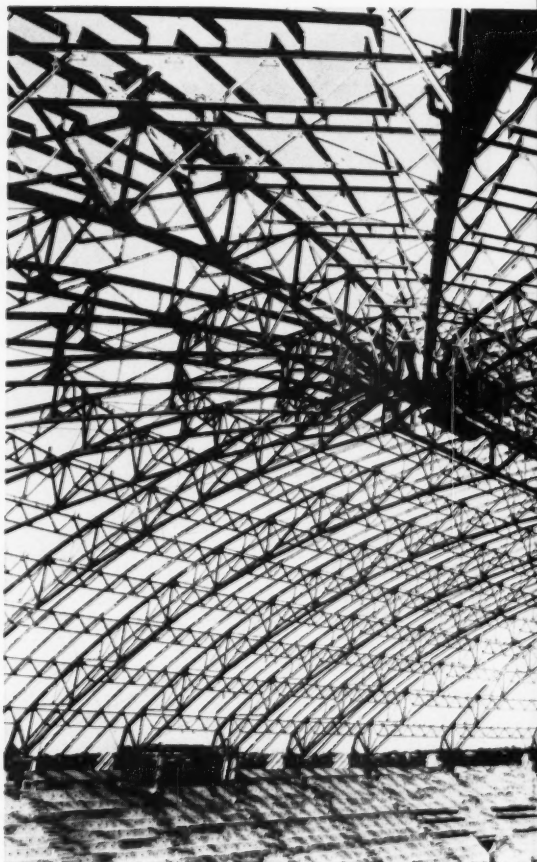
28,000-POUND BOMB LOAD. The new B-50 is now equipped with two huge auxiliary fuel tanks that extend the plane's range considerably. The building of aircraft like this requires large quantities of steel . . . and because United States Steel is large, and has steadily increased its capacity for turning out steel, it can supply vital steel for such mobilization "musts" as this, as well as for many essential peacetime products of steel.

FACTS YOU SHOULD KNOW ABOUT STEEL

Today, United States Steel and the more than two hundred other American steel companies can make 11 million more tons of steel annually than in 1944—which was the peak steel-producing year of World War II.



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DOME OF STEEL. This pattern against the sky is formed by sturdy ribs of steel in the roof structure for a column-free building in Texas. Fabricated and erected by United States Steel, the domed unit rests on ball and socket bases. United States Steel supplies steel for everything from churches to chicken houses, skyscrapers to steam plants, bridges to boats.



MAN'S BEST FRIEND has found luxurious quarters in kennels of U-S-S Stainless Steel at The University of Georgia's School of Veterinary Medicine. Ideal for so many peacetime purposes because of its good looks, corrosion-resistance, and strength, stainless steel will play an important role in America's huge mobilization program, too.

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**THESE SAVINGS
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Fabricators
ARE ASTOUNDING!**

A radio chassis, 10"x14", with 27 holes and 4 notches was produced including setup in only 9.3 minutes and subsequent pieces in only **1.8 min.**

An automotive channel, 28" long with 12 holes was fabricated including setup in only 3.37 minutes and subsequent pieces in only **29 sec.**

An electric refrigerator part, 29 1/2" x 8 1/2" with 10 holes and 4 notches was fabricated including setup in only 3.61 minutes and subsequent pieces in only **37 sec.**

An electronic chassis, 12 1/2" x 11 1/2", with 118 holes and 4 notches was completed including setup in only 32.45 minutes and subsequent pieces in only **6.44 min.**

A part for farm equipment, 72 1/2" x 22", with 32 holes and 26" nibbled cut-out was finished including setup in only 12.01 minutes, subsequent pieces in only **2.32 min.**

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● The above time studies, made under actual production runs with average operators, were taken at random from hundreds of time studies parts.

Wales Fabricators fit into your metal fabricating picture wherever limited runs do not justify expensive, single-purpose dies for punching, notching or nibbling.

Wales patented "Quick Change" System plus up to 165 strokes a minute, makes possible these startling "never-heard-of-before" time study figures.

Check with your time study man and have your secretary write for the complete story in Catalog 10-A.

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Specialists in Punching and Notching Equipment

ing an airplane is possible because of the absence in this recorder of floating parts.

Cowhands at round-up time on one of the big ranches wear chest microphones and record the brands as they move among the cattle. This is considered an added safety feature because it eliminates pencil and paper, leaving the cowboy with both hands free and permitting him to move much more cautiously.

One of the important applications of the Audograph is in sales training work. Salesmen learn how their sales presentations sound by listening to the playback. In Gray's own sales training, the men take the machines home, practise demonstrations, and send periodic discs to the company.

PRESIDENTS

(Continued from page 15)

have to earn heartpower." So he set out to earn it and the record of our relations with our employees over the years and the spirit of the organization is evidence of how well he succeeded.

The thing that impressed me about his action in this instance was first of all his insistence upon getting the facts and getting them first hand. He did not look at trouble through a telescope. He went out on the work level and put himself in a position where he could look at the situation from a worker's viewpoint.

That is as good a policy to-day as it was in Mr. Patterson's time. The necessity for getting the facts runs through all phases of management and I would put it high on the list of any executive's qualifications. It is so easy to generalize from some specific instance and reach an entirely wrong conclusion that the effort to get the whole story and the right story must be a constant one.

But, perhaps, Mr. Patterson's greatest single qualification for management was his ability to select the right men to fill important posts. I would rank that to-day as the primary requirement

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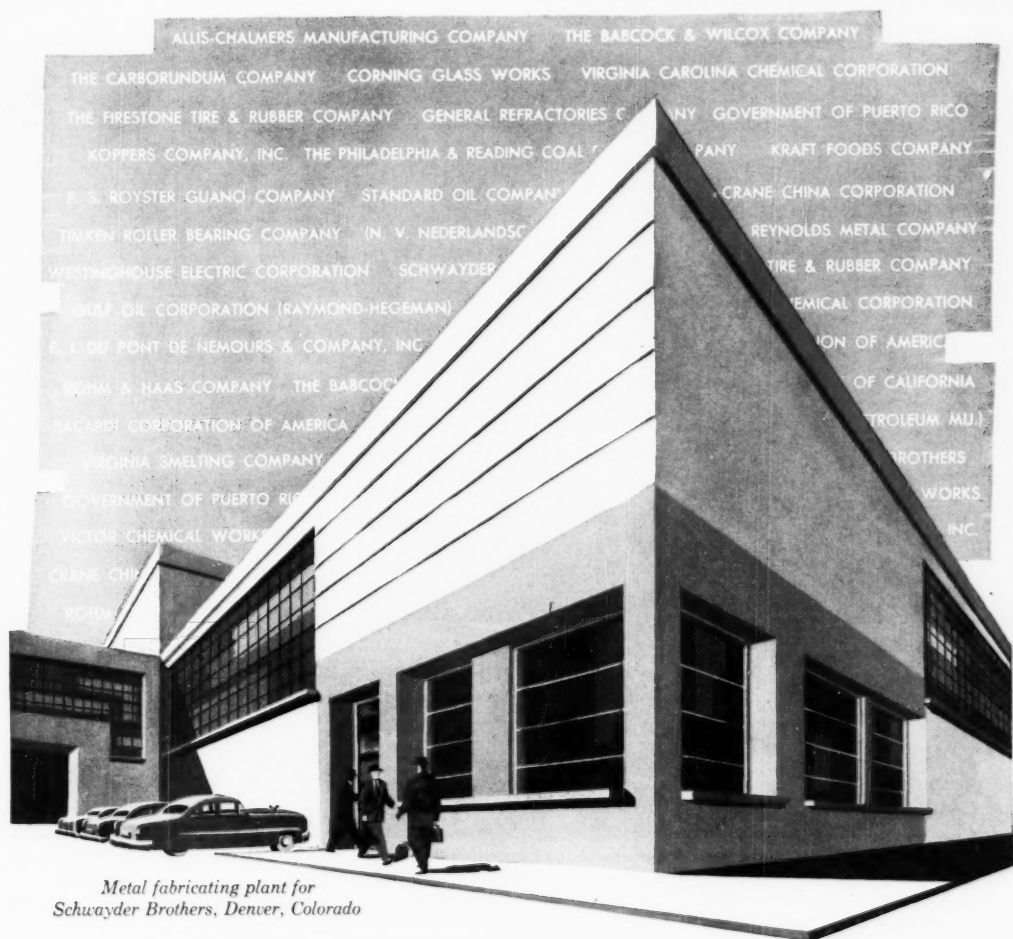
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of a successful executive. Along with that must go an appreciation of the need for a strong selling organization and above all a determination to keep the product up-to-date.

In our own business I consider product development one of management's major responsibilities. Sometimes I think it is the most important of all. I say this because no business can exist long with an out-of-date product.

Another vital factor is recognition of the importance of good human relations. A man who cannot get along with people stands little chance for success in management's chair.

As a final comment on the qualities of an executive I would like to say this. No man can ever go far wrong if he gets out the old Golden Rule once in a while and polishes it up.

COST-OF-LIVING

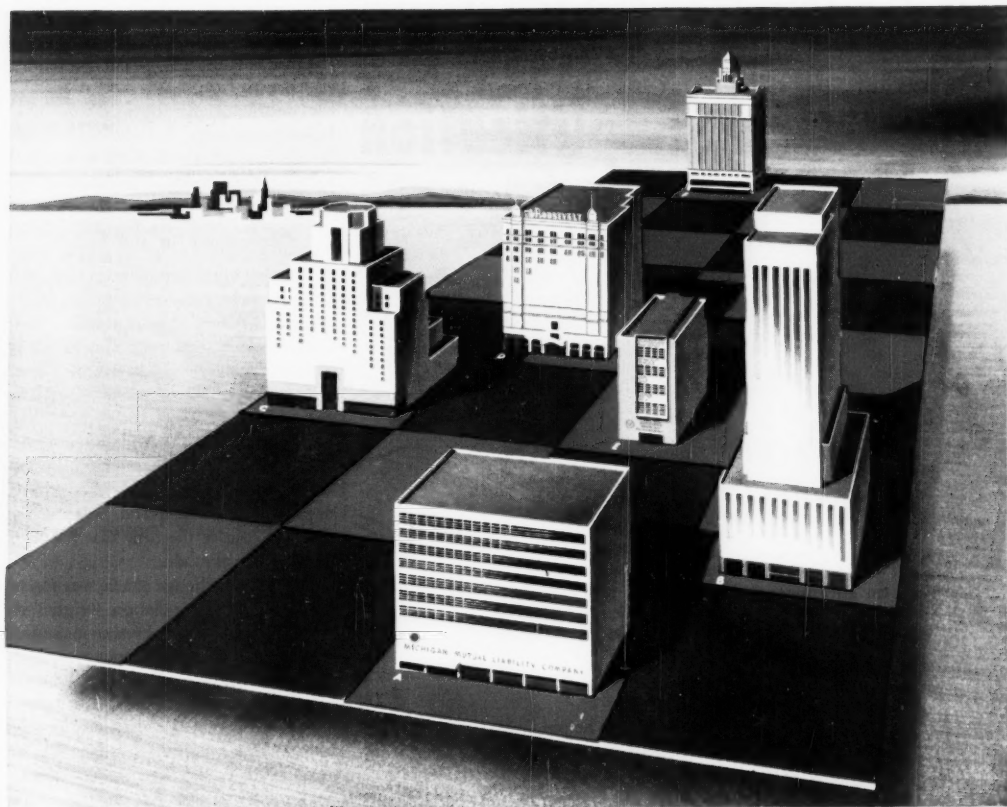
(Continued from page 29)

during any one year. This is because many of the new items are less variable in price than similar items already in the index. For example, frozen foods have less seasonal variation than fresh fruits and vegetables, and cola drinks fluctuate less in price than coffee.

The third change was the adjustment of the group and item weights. The Bureau had long recognized that food was carrying a heavier weight in the index than was actually being spent out of the family budgets in the post-war period.

In the old index food had a weight of about 42 per cent, whereas, sample post-war family expenditure studies in a number of cities during 1947-1949 showed that the true weight was about one-third of the total. On the other hand, the miscellaneous commodities and services, comprising medical care, transportation, personal care, and others, claimed a much higher proportion of the family budget—about 32 per cent instead of 23 per cent.

The effect of the exaggerated weight on food was to cause the whole index to rise more rapidly than it should have from the Summer of 1946 to the peak in the Summer of 1948. This was be-



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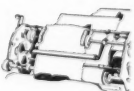


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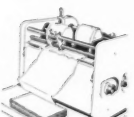
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cause food prices rose faster than prices for other kinds of consumer goods. On the other hand, this exaggeration corrected itself to a considerable degree in the decline of food prices from the Summer of 1948 to February 1950. In other words, the index rose too fast for two years, and then fell too fast for a year and a half.

Corrections in the Index

Changes in the group weights would not have been a matter of great importance in a period of price stability, and could have waited until the final revision of the index in 1952. But with the sharp rise in food prices in the late Spring of 1950, it became evident that the overweighting of food would affect the index seriously. Consequently, the new weights were worked out and were applied to the adjusted index as of January 1950, at the time that the rent correction was made.

The fourth change made was to replace the 1942 population weights in combining the city indexes to make the national index. The Bureau procedure is to make the city indexes first and then combine them to find the national average. In this average each city is represented in proportion to its population. This change has some effect on the national index, but not much. All of the 34 cities in the index increased in population from 1942 to 1950, although some gained more than others.

The chart on page 18 shows the trend of the adjusted index since January 1950 in comparison with the old index. Note that the adjusted index is higher by 1.3 points in January 1950. However, this index, with the new weights



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and the rent correction included, was 184.5 in March 1951, while the old series, without the rent correction added to it, was also 184.5.

There will not be any break in the adjusted index as of January 1950, although the chart might indicate so. The Bureau has revised the index back to 1940 by applying the rent correction month by month over that period.

The raising of the index by 1.3 points in January 1950 has not been permitted to limit the comparability of the index from 1950 back into the past. This corrected series is now available in the Bureau and will be published in an early issue of the *Monthly Labor Review*. Most of the downward rent bias occurred during the heavy post-war building in 1947-1949, so there is comparatively little correction prior to 1947.

General Motors' Wage Contract

With respect to the future, the Bureau faces some problems. During the entire two years of the first General Motors contract, May 1948 to May 1950, this type of contract was almost unique. During that period there were a few firms and unions which signed agreements on a similar basis. However, when the General Motors agreement was renewed in May 1950 for five years, by agreement of management and the unions, this precise tie-up of wages with the Consumers' Price Index was still rare in collective bargaining.

But when the Korean outbreak caused prices and the cost of living to move sharply upward, there were literally thousands of reopenings of contracts in the second half of the calendar year 1950. Furthermore, a good many of these reopenings led to adoption of the General Motors type of contract or some variation of it. In some cases, unions and management adopted the exact form of the General Motors contract even though it was not strictly applicable to their situations.

By December 1950 the Bureau of Labor Statistics had compiled a list of about 200 agreements embodying this type of contract, and there are undoubtedly many others which did not come to our attention. As of April 1951 somewhere near three million workers are scheduled to receive wage adjustments based on this form of escalation.

Furthermore, the number is increas-

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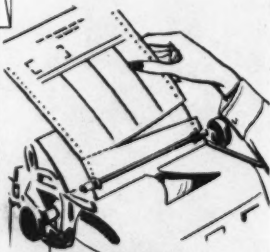
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ing steadily as new contracts are signed. With continued apprehension concerning the effect of future increases to living costs on living standards, the unions are pressing in negotiations for the adoption of some kind of escalation which will protect wages against rises in consumer prices.

The Index and Wage Contracts

When these new and reopened contracts were being signed in the late Summer and Autumn months of 1950, they were necessarily based upon the old unrevised index. The Bureau did issue in October 1950 an announcement of its intention to make an interim revision of the index, so that labor and management could take this fact into account in negotiations. Some contracts contain provisions for the shifting from the old series to the new index. However, some contracts did not contain such provisions, while others merely stated that a shift to the new index could be negotiated.

Anticipating the possible difficulties that might arise when the new adjusted index would be completed and issued, both the Labor and the Business Research Advisory Committees recommended to the Bureau that the old index be continued for a period of time long enough to permit the bargaining parties to transfer their contracts to the new index. In order to avoid any risk of an industrial dispute arising from the use of the index, the Bureau accepted this recommendation.

Since many of the contracts had been signed in the closing months of 1950, and since most collective bargaining contracts run for one year, the continuation of the old index to the end of 1951 seemed to meet this need. Accordingly, the Bureau announced this policy some months before issuing the new index.

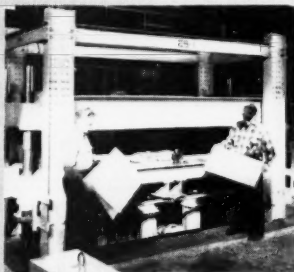
It is for this reason that the Bureau now publishes two indexes each month. First is the Adjusted Index, including the rent correction, the revised weights, and the other adjustment factors; and, second, the Old Series without the rent correction, without the weight revisions, and without any other of the adjustment factors. This situation will continue for the year 1951. Eventually, of course, the Old Series will then be discontinued.

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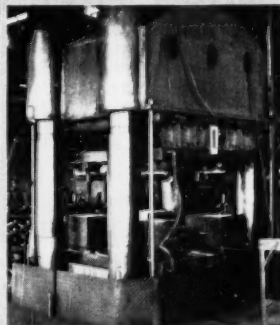
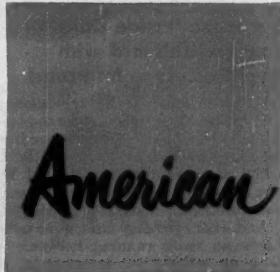


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is the Bureau's preferred index; it is an improved index, and a better index for measuring changes in consumer prices from the period before Korea to the present time.

All the changes made by the Bureau in this interim adjustment of the index were designed to make it a more accurate measure than the old index. It may be asked then, why the old series is not discontinued. The answer is, as indicated previously, that many specific contracts are still tied to it. Therefore, the Bureau will continue for a time to publish the old series as an official index to protect these contracts.

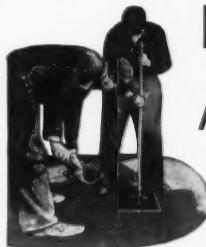
Effects of Controls

Another problem which the Bureau faces is the effect of economic controls upon the Adjusted Index. The new commodities and the new weights which are valid for 1950 and early 1951 may be changed by later circumstances. For example, if the war situation worsens and sharper cutbacks are made in consumer goods, there may not be as much consumer buying of housefurnishings, kitchen equipment, and other consumer durables. Likewise, if rationing should be introduced there would be a change in the pattern of family buying generally.

In this emergency the Bureau plans to deal with each of these factors to the best of its ability. It is our hope that we shall be able to survey sample families from time to time to check on all of these developments. Whenever the consumer check shows that buying patterns have been altered, or that commodities have disappeared, then changes can be made in the index, if necessary. In this way the Bureau hopes to keep the index strictly up-to-date with changing conditions and thus possibly avoid some of the criticism which arose during World War II.

At present the Old Series is slightly higher than the Adjusted Index. If food prices continue to rise faster and farther than other items in the index (as was the case during 1950 and early 1951) then the Old Series will rise faster because food is over-weighted. On the other hand, if food prices are held down by price control, if there are good crops in the Summer of 1951 and the market prices of farm products decline, then the Old Series will decline faster.

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The Adjusted Index is likely to be more stable throughout the year and may, therefore, have a smoother trend. The Old Series is influenced more by the wide swings in the prices of seasonal fruits and vegetables.

Companies and unions can transfer from the Old Series to the Adjusted Index at any time, and in a variety of ways. Many contracts provide for some method of transfer. The General Motors contract specifically provides a formula for effecting the shift from one index to the other.

For the longer future, attention must continue to be centered on the eventual major revision of this index in 1952. By July of that year the Bureau will have completed its three-year program of revision. Some time thereafter, hopefully within a few months, the Bureau will have a completely revised index ready for use by labor, management, the Government, and the public.

BUSINESS

(Continued from page 21)

Middle West some 150 towns have adopted the plan with signal success. Now the movement has spread to New England where recently the highly industrialized city of New Britain pioneered in its part of the country by holding its first BIE Day.

New Britain, known as the "Hardware City," is a good laboratory for trying out the effects of this manner of spreading the story of industry. It is preponderantly an industrial city in which the community economy is wrapped up in the operation of the plants.

To get this fact over fully to the educational corps of the city a program was carefully prepared. A month to six weeks was allowed for planning. A steering committee of about nine members was formed, consisting of representatives from the Chamber of Commerce, the School Board, and industrial associations.

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of the teachers who were to be their guests, they sent letters of invitation, signed by the chief executive.

The plan was publicized well in advance to employees of the plants through their foremen, house organs, bulletin boards, and group meetings. The teachers were informed by the school officials through announcements, bulletins, letters, and meetings. The public learned of it through local newspapers, and radio talks given by industrial and school officials.

Preparing for the Public

At each of the eight plants which acted as hosts careful preparations were made. A map or chart of the plant tour was prepared, showing the locations and names of departments, types of machines, the products made, and the services performed. Guides were briefed with a tour script so as to be able to tell the story accurately of the company processes, policies, and practices, and to indicate the points of interest. Descriptive signs were posted along the route, and exhibits, including charts and pictures, summarized the source of raw materials, the steps in manufacturing processes, how the company dollar was spent, safety records, payroll, and personnel policies.

Identification badges were prepared for each teacher, giving both name and school, as well as for the guides and company representatives. A souvenir or sample product was provided for each guest.

Among the 600 persons from the schools who had the opportunity to make these tours of inspection were not only the teachers of public, parochial, and private schools but other school employees, including janitors and clerical workers. They were divided into groups to go to the various plants according to pre-arranged assignments, and were transported in automobiles to their destinations.

At each plant the group was met by guides who remained with it during the day. Before starting on the inspection tour, each group was greeted by an executive of the company, who briefly gave the teachers an over-all picture of the company's history, policies, organization, leaders, products, and services.

The morning then was spent on a tour through the buildings. After a



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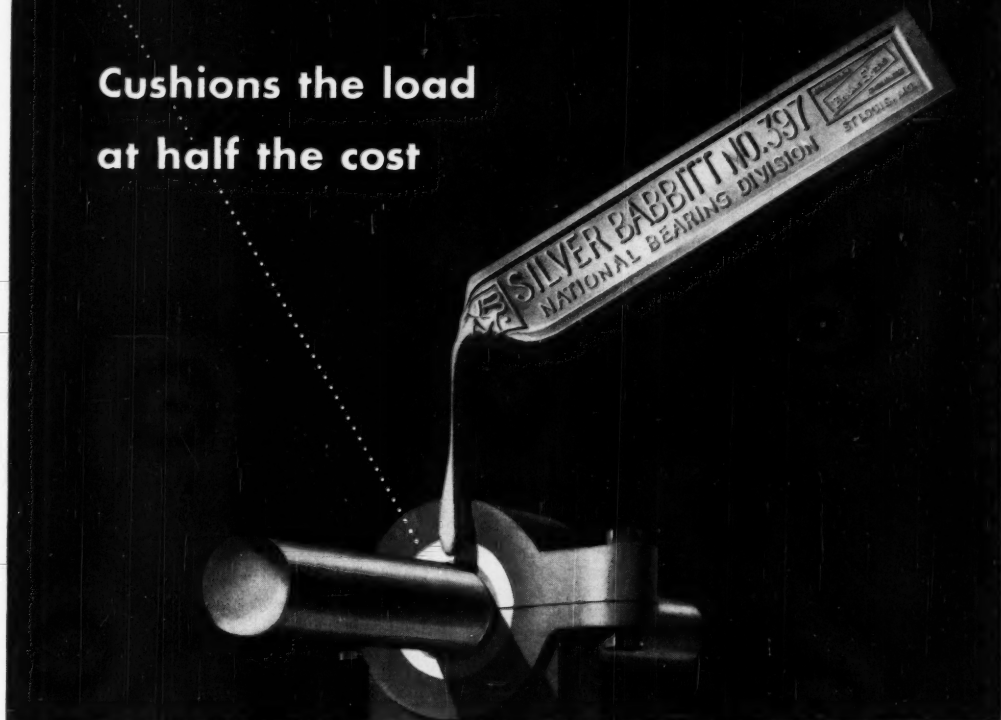
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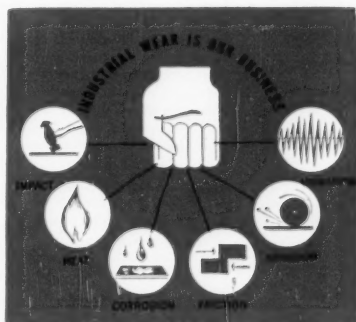
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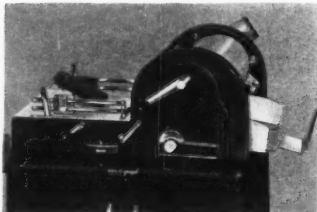
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SUPERIOR FLUID TYPE DUPLICATORS AND SUPPLIES

short rest the visitors were entertained by the company's officials at luncheon. In the afternoon the department heads and the chief executive of the company gave short talks which were followed by a question-and-answer period.

The subjects discussed pertained to such matters as what business contributes to the community; employment, education, and training in the company; duties and responsibilities of business management; problems of business and industry both in the community and throughout the country; and the importance of maintaining all of the freedoms enjoyed by the American people. The basic economics of the American system were emphasized.

Industry's Contribution

From these talks the listeners gleaned many interesting and impressive facts concerning the methods followed by the different companies in selling their products, the studies of consumer and customer demand, the problems of designing and engineering, and competition. They were given a quick picture of economic questions—government controls, taxation, profits, costs of materials and labor, labor questions, and matters of distribution and production.

In concrete terms they learned of the contribution of industry to the life of New Britain. They discovered that nine local industries with sales amounting in round figures to \$175,000,000 during the preceding year had paid from that sum about \$75,000,000 in wages and salaries to New Britain people, thus supplying much of the city's financial life blood. This money pays the doctors, the merchants, the landlords, the theaters, and, in large part, it supports the hospitals, churches, and charities. The corporations likewise donate one-third or more of the cost of maintaining the Community Chest activities and other social welfare work. The New Britain manufacturers pay into the city's treasury slightly less than one-third of the total municipal taxes collected.

In each company the chief executive stated the case for industry as a whole, in some instances using New Britain as a concrete example to bring home the salient facts. In essence, they said that

the fame of New Britain results from the excellence of its products, which are needed throughout the country and, indeed, the whole world. The companies which produce those much needed wares are the outgrowth of the diligence and character of several generations of men who built up their firms in spite of the fact that New Britain lacks most of the natural advantages common to most industrial cities such as location on a waterway or main line of a railroad. It is far from the center of population, thus suffering some handicap on freight rates.

Local Citizens Are the Managers

It was pointed out that there is no absentee management. The manufacturing corporations of New Britain are all managed by New Britain people—the executives have their homes there and for the most part were born and educated there. The future of these industries will soon be in the hands of the younger generation—those who now are in the schools and who must make ready for their responsibility and opportunity. They will have the responsibility of taking over where the present generation leaves off; the opportunity of making the whole world a better place to live in.

There has been too much loose talk about management as one group and employees as another, the visitors were told. The managers of a business are employees just as much as any other people employed by it. Any employee can become part of management if he has the necessary intelligence, the ambition to learn, and the willingness and ability to accept responsibility. Over and above everything else, people are the most important assets in any company. In many companies, a dozen names taken at random look like a roster of representatives from the United Nations, for America is a union of all the races of the world, all the creeds, and all the thinking.

Touching upon the question of profits, it was indicated that only when a product fills a definite need or creates sufficient desire among a number of people to induce them to buy it, can that product be made and sold at any profit. It is necessary to have some profit to enable management to keep the plant in first-class condition, buy



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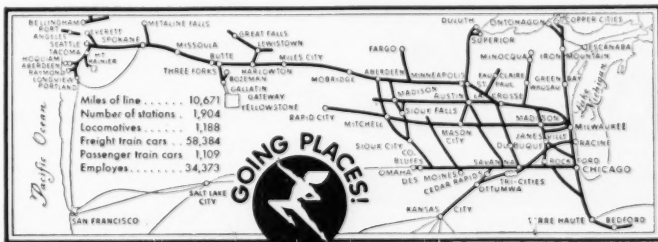
Since World War II The Milwaukee Road's been busy building for the future. Everything in the plant has been double-checked, improved or replaced.

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the latest and best machinery, and carry on a well organized development and research program.

When products are changed or new lines are put on the market, totally different equipment often is required for their manufacture. Moreover, management must be able to pay a fair return to the owners—the stockholders—for the use of their money. In many cases, employees of the company are also stockholders. The president of one company said that it would be difficult in his company to tell apart the payrolls and the list of stockholders.

Fewer Businesses Being Started

That a prosperous business is a live and vital being was impressed on the teachers. Take away the incentive of profit and the vitality is sapped which has made America what it is to-day. Taxes now take such a large slice of profits and the risks due to rapidly changing conditions are so great that risk capital is gradually drying up. The inevitable result is that few businesses are being started, and, with possible stagnation of existing industries, greater unemployment may ensue.

New Britain's BIE Day was so well organized and publicized that it attracted many observers from state educational agencies, local business groups, and even Columbia University's Teachers College in New York City. Many of the observers from towns in Connecticut were so enthusiastic about the results that they insisted that the program should be carried to every community in the state. The following day, at The Stanley Works, additional representatives of Connecticut school boards and business associations as well as school superintendents and principals were told of the plan. Subsequently they set a future date for a meeting of all interested parties.

The participants agreed that such a program for the teachers could be followed up by plant tours for students; by reciprocating visits of business men to the schools; and by business information and visual aids for the schools as well as industrial exhibits and motion pictures shown at school assemblies.

So enthusiastic was the reception of

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The **Bellows Co.**
AKRON OHIO

this first BIE Day in New Britain that it was followed by a return visit of 150 industrialists to the schools. Because of security regulations it has been necessary to post-pone plans for another BIE Day in New Britain which had been scheduled for this year.

The consensus was that the BIE Day plan helps everybody concerned. The teachers get needed information from business men on business methods and policies. They also obtain a broader view of national policies and methods and the problems of big business and industry.

Business men in turn learn about modern school methods and requirements and how to use school records when they are seeking to employ new personnel. The students themselves learn from their teachers about opportunities in business and how to prepare for them.

The plan tends toward a better understanding in the whole community. The essential factor in any community, small or large, is to know one another. And BIE Day is one way to accomplish this. As a Chamber of Commerce official said, "I can conceive of no better way of making business understood."

"FAIR" PROFITS?

(Continued from page 17)

cent for representative industrial common stocks as shown by Standard and Poor's indexes? Moreover, it should be remembered that the rates, and hence the profits, of public utilities are fixed by public authority.

The point is, of course, that it all depends upon the volume of capital required to produce a given volume of sales. If 8 per cent is a fair annual return on the investment in a business that turns its capital over once a year, then a profit margin of 8 per cent on sales suffices. If the investment required be four times the annual sales, then a profit margin of 32 per cent is needed to produce 8 per cent for the total amount invested.

In both cases assets are grossly under-

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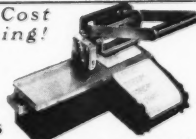
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stated which will be demonstrated later. The statistics of the Bureau of Internal Revenue for 1946 report that the assets of public utility corporations for each dollar of total annual receipts, were about four times as large as those of manufacturing corporations. A profit margin on sales that would be woefully inadequate for the public utilities could, obviously, provide a bonanza for the manufacturers.

A much more rational criterion in the premises would be the rate of return realized for the investment employed to produce the profits, although even this gauge must be read with due consideration of attendant circumstances and constitutes indicative, rather than conclusive, evidence.

Risk and Profit

It is our settled policy to reward an inventor with a monopoly for his invention for a limited term of years, and he is not to be blamed if his invention meets with an acceptance that produces extraordinary profits for the investment required to make and market it. There always is some risk in any business and if we knew how to evaluate it correctly we would all be rich.

It is to be hoped that we shall always be willing to repay good management with good profits. Consequently, the rate of return the profits produce for the investment is only generally indicative of the fairness of the prices from which those profits are derived. It would still be a much fairer test than the proportion of gross earnings that becomes a profit.

But this writer contends vigorously that it is ALL, and not merely some part, of the investment that must be the base for computing the percentage yielded by profits if the problem be to test the fairness of such profits. Consider, for example, two enterprises identical in every respect except that

THE BAROMETERS

The DUN'S REVIEW Regional Trade Barometers, including back figures, adjusted for seasonal variation, together with additional information, are available in pamphlet form. The barometers, appearing in DUN'S REVIEW since 1936, measure consumer buying for 29 regions of the United States and for the nation.

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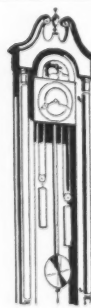
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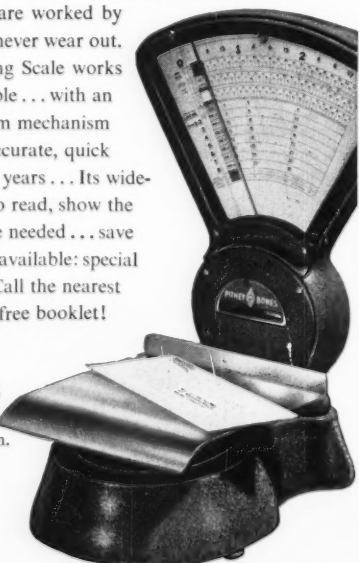
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one has borrowed half of its capital while the other has no debt: is there any good reason that the borrowing enterprise should be expected to earn less, or sell at lower prices, than its competitors in the industry?

Do not equity and common sense require recognition of the risks assumed by a borrower? If it is held that a borrower is entitled to no more return upon the proceeds of the loan than the rate of interest he pays for it, then what is the sense of borrowing at all? Yet in the statistics of business published by Federal agencies, in reports to stockholders, and in the parlance of business men themselves we are constantly told of the rate of return earned for "the stockholders' equity," or the rate of return on "net worth."

What Are Reasonable Profits?

Now, this information is of interest to stockholders, to management, and possibly to creditors, but it does not tell whether prices and profits are reasonable from the standpoint of consumers, employees, or the general public. Naturally if I can earn 7 per cent on an investment, half of which I have borrowed at 4 per cent, then I earn 10 per cent for my equity, but the public pays only 7 per cent upon the capital used in the enterprise. The fact that I, myself, have earned more for my share of it is, to put it bluntly, none of the public's business.

A wrong and harmful impression of the rate of return produced by corporate profits results from reporting the yield on stockholders' equity as representing that rate. This is readily seen by the Securities and Exchange Commission report for the fourth quarter of 1948 in which charts illustrating what purport to be "Rates of Profits for Manufacturing Corporations" prove in smaller type to be "ratio of income after taxes to stockholders' equity on an annual basis." Note the implication to a lay reader that both captions refer to the same thing.

One table in the report gives the ratio of profit on stockholders' equity in 1948 as 16.0 per cent. The subsequent "Statement of Income" nets the item of "other income or deductions," so we cannot tell how much interest was paid out to creditors. We can, however, get an approximation of the

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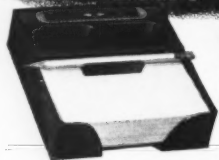
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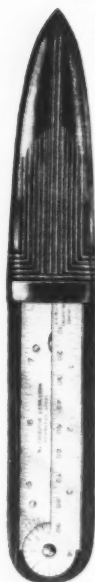
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rate earned on total investment by taking net income after taxes as a percentage of the "total assets" (understated, at that). By this computation we find the rate of profit to have been about 10 per cent—quite a different rate than SEC's implied 16 per cent.

Is the Layman to Blame?

The year 1948 was a year of great business activity, and one in which corporate profits were extraordinarily good, 29 per cent above the average for the two preceding years. But, even so, can the man on the street be blamed if he compares an annual return of 16 per cent with the interest his savings bank or the United States Treasury will pay him and regards the higher rate as excessive? Can a realistic executive expect the employees under his jurisdiction not to be dissatisfied with their earnings from an enterprise which they are led to believe is earning 16 per cent yearly for its capital?

The annual *Economic Report of the President* generally refers to corporate profits in terms of their relation to sales and to stockholders' equity. Perhaps it is encouraging to note that whereas the reports for January 1949 and before included tables headed "Relation of profits . . . to investment," in subsequent reports the exhibit is more appropriately entitled "Relation of profits . . . to stockholders' equity."

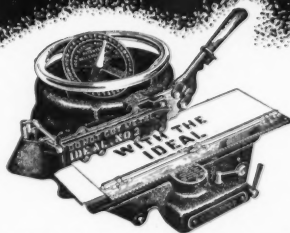
Now if the data we seek is to be related to the fairness of prices and profits, we cannot exclude from consideration either the money borrowed in carrying on the business (loans, trade credits, or otherwise) or the compensation of creditors. If we consider such factors, we may censure a high yield situation based solely on a shoestring equity, subordinate to reckless and improvident borrowing, but not one based on the extent by which sales revenue exceeds cost of production.

The profits in which the public has a legitimate interest must include interest, amortization of discounts, and any other monetary benefits to creditors as well as the remainder applicable to the equity of the stockholders. This figure is sometimes referred to as the "gross corporate income" and, when related to the total investment, affords a fairly rational basis for the consideration of the reasonableness of profits

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and corresponding fairness of prices.

The accounting profession seems uncertain whether the books should be kept in terms of cost or in terms of value. As a general thing the financial reports of most industrial corporations set forth balance sheets reporting total assets in amounts which do not represent either cost or value but are a mixture of both. Value obviously is a matter of opinion while cost is a matter of fact, and it is not apparent why the public should be expected to form its judgment solely on a basis of opinion.

Emphasis on Clearness

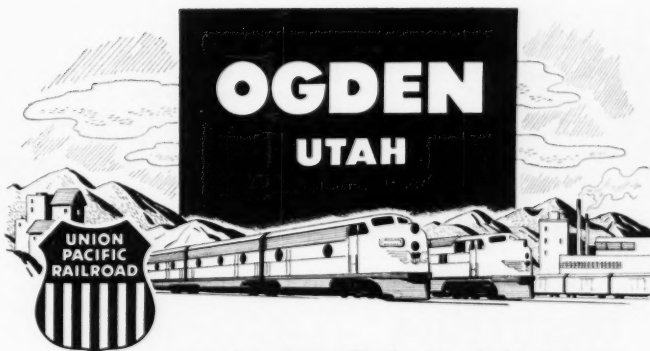
The corporate balance sheet should, so far as possible, record cost and in such a way that the balance sheet does not have to be interpreted and translated by an expert accountant in order to be understood by a layman of ordinary intelligence. To this end, why not let all assets be shown at cost and let any authoritative opinion that cost exceeds value be reported as a liability, at least so long as there is any uncertainty in the premises?

The well established and, unfortunately, perfectly orthodox deduction of certain reserves from the assets to which they pertain, then carrying only the net into the total assets column, is an effort to adjust the cost of the related assets to an estimate of their value.

There can be no question of the propriety of providing for potential losses by means of appropriate reservations, but why cannot this be done by recognizing those reserves as contingent liabilities (contingent either to the amount at risk, the time of occurrence, or other uncertainty) instead of practically writing them off the books as though the funds had vanished as soon as they were appropriated?

If we insist upon reflecting current values in reported assets, why not write up unexperienced gains if we write down for unexperienced losses? These comments apply to all the usual reserves; that is, for uncollectable accounts, for shrinkage of inventory values, and most important, the provisions for depreciation and depletion.

Reserves insure against loss through a contingent event: one definition of them in Webster's Dictionary is; "that portion of a corporation's earning set



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aside to meet future losses or contingent liabilities." If it be argued that losses due to occur from depreciation are not contingent but actual, let the detailed estimates of useful life used to compute appropriations for the reserves be compared with actual experience and note how few instances there have been where estimate has matched the results of experience.

Of course the loss does not occur until property is abandoned as no longer useful and may be occasioned by physical deterioration, obsolescence, or inadequacy. The last two factors clearly are contingent, and even the effect of wear and tear will depend largely upon skill in operation and diligence in competent maintenance.

There is no doubt that physical assets will be abandoned ultimately, but no one can predict just when or just why. Reserves are therefore insurance. The reserve for depreciation is shown as a liability and aptly described in the financial reports of The American Telephone and Telegraph Company as: "Provision to meet loss of investment in telephone plant upon its ultimate retirement from service."

When to Retire Assets

The time for retirement from service because of depreciation must depend upon the judgment of the management in nearly all cases. Consequently, it is impracticable to have the resultant loss underwritten by outsiders as the risk of loss by fire can be and generally is. Again, you may never have a fire, but the ultimate loss of physical property other than land is inevitable.

Assume that a corporation carries its own insurance against loss by fire as some corporations do in special cases: would it write down the investment in physical property by the amount of fire insurance protecting it? The analogy between insurance against loss by fire and insurance against loss by depreciation will also answer those who think that since appropriations for depreciation are charged to expenses of operation they must be regarded as in the nature of amortization of investment; no one questions the propriety of charging the cost of fire insurance to expense.

Until a corporation has either reasonably insured itself against all known risks, or else wound up and liquidated

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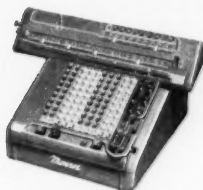
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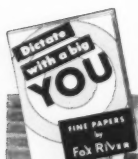
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without loss to its owners, it cannot be said to have earned a profit. It may be helpful to think of unconsumed reserves for depreciation or depletion as reinvested liquidating dividends.

The fact that reserves for depreciation are not funded in segregated assets has no relation to the case; such reserves are represented by assets in one form or another that add to the investment in the surviving property still used for production. Retirement of property from service is of course accompanied by retirement of the investment in it and a corresponding reduction of the balance in the reserve accounts; assets still balance liabilities.

Dividends and Depreciation

Were we not to accrue periodically for depreciation, but were instead to await the retirement of property from service, charging its cost to expenses, then the accounting would properly record the history of the case. But no one who has learned by experience how rapidly obsolescence can operate to make expensive replacements the price of survival would want to invest his money in an enterprise operating on that principle or serve as a director of a corporation disbursing dividends in accordance with it.

The writer was active in the electric light and power business when the advent of the steam turbo-generator required prompt abandonment of our fine, big reciprocating engines, or the loss of most of our large power customers as the alternative. Had not reserves absorbed, or cushioned, the loss of investment that resulted, an appalling number of receiverships would have ensued as a consequence.

One critic to whom this concept was submitted said that "if depreciation were not deducted from property assets, the effect would be to have the same value included twice, once in the form of cash or related assets and again in the property values." It is precisely because the unconsumed balance of a reserve and the asset to which it relates are both employed in some way to carry on the business that the total investment is understated when the reserve is deducted from its related asset. The value of the asset is not referred to, but its cost.

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are based upon "fair value," it is a generally accepted principle in this country that actual, not theoretical, losses due to depreciation must be a controlling factor. When property is well maintained and there is no appreciable factor of obsolescence then permissible earnings will be based upon prudent investment.

Indeed, if executives of corporations not subject to pricing by public authority—at least not yet—would consider their enterprises as on trial before the bar of public opinion, they would find that the experience of public utilities with regulatory commissions and the law courts would afford many helpful precedents as to what earnings are fair and reasonable, and why.

The Reserve for Depreciation

In the many reports of public utilities that I have read the reserve for depreciation invariably was shown on the liability side of the balance sheet. These balance sheets, moreover, were approved by certified public accountants, in the same language employed to certify balance sheets of industries reporting their reserves as reductions from fixed capital on the asset side.

Of course, the two methods are identical in substance but it would seem that the difference in form is the difference between implying on the one hand that investment already has been consumed and, on the other hand, saying that it is going to be lost in the future through inevitable abandonments and retirements; hence, insurance against the ultimate loss has been provided.

If the reserves for depreciation are recognized as insurance, the analogy supports the contention of some leading industrialists that the reserves should be accrued to provide for replacement at estimated reproduction cost and shown accordingly.

Certainly no prudent management has failed to increase the fire insurance carried on pre-war structures and this has not encountered any objection from accounting or tax authorities. Insurance against fire is universally admitted to be an essential cost of doing business, so how can the cost of insurance against the inevitable loss from depreciation be regarded otherwise?

Compare the impression given by the financial statements of three well-



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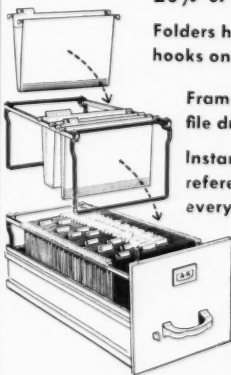
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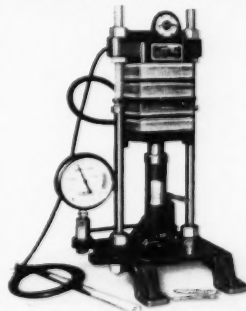
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known corporations as shown in the table on page 17 in terms of "relation of profits to stockholders' equity" with the percentage earned for the total investment when depreciation and depletion reserves have been restored to "total assets." In terms by which the rate of return earned on corporate capital is usually measured and discussed, the rate was roughly twice that which was produced on total investment in each of the three examples cited.

Can any corporation executive conscious of the importance of public relations in these times dismiss such a discrepancy between fact and fancy as academic and unimportant?

Judging by the figures for the first three quarters of 1950 given in the most recent *Economic Report of the President*, the ratio of profits to stockholders' equity for all private manufacturing corporations will probably be about 15 per cent for the full year in terms of the orthodox parlance.

It's the Risk Involved

It cannot be denied that, as an average for more than 100,000 enterprises, 15 per cent would be extraordinarily lucrative, while half that rate could not fairly be criticized as an excessive return for capital utilized in manufacturing, risk being duly considered.

The faults that produce a wrong impression of the rates of corporate profits are inherent in the industrial financial reports issued jointly by the Federal Trade Commission and the Securities and Exchange Commission and in the composite statement of Assets and Liabilities of Corporations from the Bureau of Internal Revenue's report entitled *Statistics of Income*.

Even the meticulously careful *Federal Reserve Bulletin* publishes each year a review of industrial financing that includes a composite balance sheet for 300 large corporations setting forth "plant and equipment (net of depreciation)" with no information about the depreciation reserves.

The FRB economists were seemingly unaware that such a balance sheet is unconformable with the statement in an accompanying article that "Throughout the post-war period business concerns have met the main proportion of their financial requirements with funds from current operations—retained earn-

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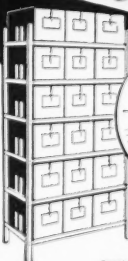
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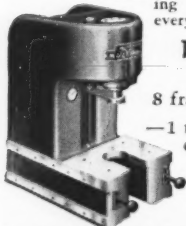
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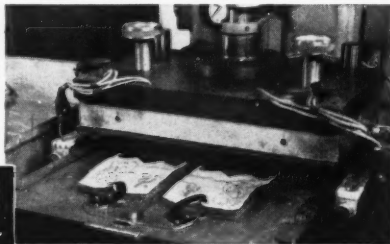
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ings plus depreciation accruals—supplemented . . . by funds made available through liquidation of assets."

If the funds provided by the depreciation accruals vanished when appropriated, as implied by the Federal Reserve Board composite balance sheet, they could not have contributed much to meeting the financial requirements.

In the years from 1940 to 1945 total assets of all corporations and total receipts rose 38 per cent and 72 per cent respectively, while a decline of 8 per cent occurred in their capital assets, according to the Bureau of Internal Revenue's *Statistics of Income*.

Increases in This Period

In the same period the number of workers covered by insurance against unemployment under the Federal Security Agency increased 23 per cent, the Federal Power Commission's tabulation of industrial power requirements rose 55 per cent, and the Federal Reserve Board's index of total physical production rose 62 per cent.

Are we to believe that the great increase in industrial activity indicated by these official figures was accomplished despite a decrease of the investment in the plant and equipment required for production? Are our business men that good?

Not only do official statistics net the fixed capital accounts when reporting the total assets, but they also omit any statement of the reserves that were deducted. Consequently we cannot definitely verify a suspicion that the decrease in capital assets was due solely to the increase in the accrued reserve.

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was what really happened from the Department of Commerce statistics of national income in which depreciation charges are shown as having reduced gross national income by \$7,228 million in 1940 and by \$10,885 million in 1945. This 50 per cent increase in depreciation charges would seem to indicate a similar increase in gross fixed capital accounts, which would not be greatly out of line with the increase of 62 per cent in physical output when technological progress and the lengthened work-week are considered.

The principle underlying the proper measurement of reasonable profit as the relationship between profits and gross assets is nothing new or untried. It is reflected in our State laws on interest and usury. It has prevailed for many years in the regulation of rates of railroads and public utilities.


Book Value of Assets

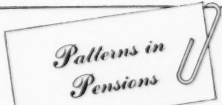
True, there has been, and still is, a difference of opinion about whether the assets are to be taken into account at their original cost or on the basis of the cost to reproduce them. While the argument is not within the scope of this article, it must be said that in a free market "present value" always prevails in prices agreed upon between willing buyers and willing sellers.

Moreover, the fact that in political circles the "prudent investment" theory is popular at times when "present value" exceeds original cost, while "reproduction cost" is favored when the reverse is the case, evokes a rather cynical opinion of the good faith underlying the politician's interest in this important subject.

According to an elaborate survey in *Fortune* magazine (October 1950), for more than 30 years E. I. du Pont de Nemours & Co. has measured the success of its projects by the rate of net operating income on investment after taxes. The investment comprises "gross value of plant and working capital." The practise, said the article, "confounds the orthodox" and "has worked for du Pont with remarkable control."

Another very respectable precedent can be found in the annual reports of United Fruit Company. That for 1950 reported an item of total assets as "Fixed Assets" amounting to a cost of \$354,578,551 while "Accumulated De-





YOUR RETIREMENT PROGRAM

SHOULD BE GEARED TO YOUR COMPANY EARNINGS

IF your company EARNINGS ARE STEADY

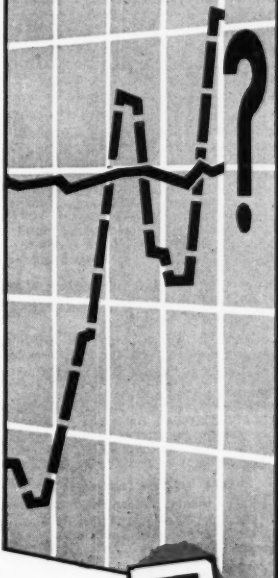
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IF your company EARNINGS ARE ERRATIC

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41,620 MANUFACTURERS

DUN'S REVIEW REACHES THE PRESIDENTS AND TOP EXECUTIVES OF 41,620 MANUFACTURERS.

preciation" of \$175,954,890 was shown as a liability. Still another is afforded by Allied Chemical and Dye Corporation whose annual report for 1950 listed its gross "Property Account" at a cost of \$432,504,164 among its assets. Reserves for depreciation and obsolescence, amounting to \$273,368,575, were listed among its liabilities.

And now, having the balance sheet straightened out with unconsumed investment listed under total assets, some thought may be given to what constitutes "stockholders' equity." Broadly speaking, the liabilities of a corporation are to two parties only; namely, the creditors and stockholders, to the outsiders and the insiders.

What Is Stockholders' Equity?

So if we deduct from total assets (correctly stated) all the liabilities to creditors, are not the stockholders the sole owners of what remains? Is that not true "stockholders' equity" as of the date of the balance sheet, no matter if some part of it has been impounded for anticipated losses?

So construed, the stockholders' surviving investment in the business will be found materially larger than the sum of the stated value of the corporate stock and the undistributed surplus that generally is represented as constituting the stockholders' equity.

It is respectfully suggested that officers and directors ponder these questions when deciding how to dispose of profits and that they take into account the rate of return a proposed dividend will produce for the stockholders' equity in full. In too many cases dividends, when so measured, will be found somewhat too demonstrative of the law of diminishing returns.

It might also be well for conscientious officials (and most responsible officials in large corporations merit that rating) to give some thought to whether or not bonuses that are subordinated to a stated rate of return for stockholders are computed in compliance with basic principles involved, if books are kept according to orthodox procedure.

Practices criticized in this article—discussion of profits as a percentage of sales, measurement of them by the return on stockholder equity with the latter understated, deduction of reserves from the assets to which they

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pertain, and comparison of profits from one year to the next—are all deeply rooted and generally accepted in business circles at large.

Government statisticians can hardly be blamed very much for adopting methods certified by leading independent auditors. But the principal effect of all this is to understate investment and so give an impression that investment gets a much higher return than it actually does.

This impression lends plausibility to the claims of labor organizations that the direct and indirect compensation of workmen can and should be increased without increasing prices.

The New York Times of November 18 quoted a spokesman for the AF of L before the House Ways and Means Committee hearing on excess-profits taxation that "not less than \$5 billion to \$6 billion would, if properly distributed, involve no serious hardship to corporations at the present level of earnings."

Questioning Tax Fairness

The same account reported that the director of the CIO's Department of Research and Education testified that his organization did not think that corporations have borne a just share of total Federal taxes in recent years, "and certainly are not now bearing their fair share of Federal taxes."

Corporate profits in 1950, after tax, are now estimated to have exceeded by \$1.2 billion the record of \$20.9 billion in 1948 of which the manufacturing corporations contributed \$11.9 billion. This was said in *The Economic Report of the President* to have been 16.1 per cent of stockholders' equity.

Here is the kind of picture presented to Congress in connection with proposed excess-profits taxation and no great amount of imagination is needed to estimate many Fair Dealers' reactions to it. As previously stated, however, there is ground for doubt that the 1948 profits of \$20.9 billion produced more than from 8 to 10 per cent for the total investment (fairly stated) from which they were derived.

Admittedly it is a story that might not apply in some individual cases but the variation from year to year in the rate of return produced for investment during a reasonable period of time (say

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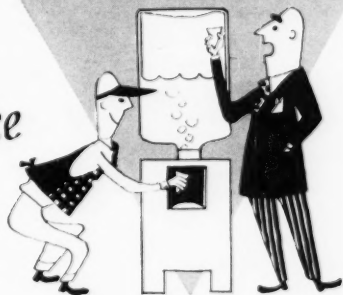
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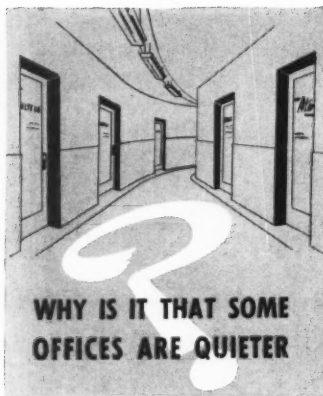
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at least three years) would afford a pretty fair indication whether the profits of corporations as a whole were fair to all concerned and prices correspondingly reasonable.

Even in individual cases any wide swing in such an index, whether up or down, would seem to call for an explanation. The story could well be a part of a corporation's published reports and I think it would be of as much interest to and with as much effect on Main Street and possibly Washington as it would on Wall Street.

DUN'S REVIEW

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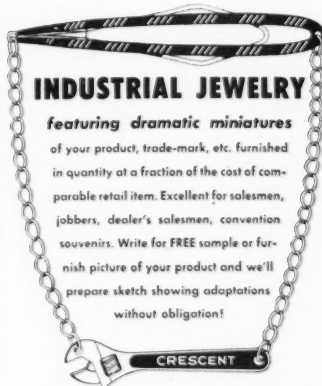
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and regional trade information; they are summarized and
interpreted each month in DUN'S REVIEW (see pages 25,
26, 28, 30, and 31).

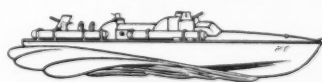


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Building Strength for the Free World

Highlights from the Annual Report of Standard Oil Company (New Jersey)
for 1950...a year of record activity*

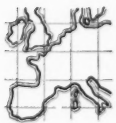
Standard Oil Company (New Jersey) is an American corporation which has, in varying degrees, investments of capital and technical knowledge in a large number of operating oil companies, both in the United States and abroad. In 1950, these companies:

IN THE U. S. A.



Drilled over a thousand new wells, with an unusually high proportion of producers . . . Improved and expanded refineries in New Jersey, Maryland, Louisiana, and Texas . . . Completed a new continuous wax-making plant at Bayonne, N. J. . . . Added 370 miles to Texas crude oil pipeline systems . . . Started doubling the capacity of a products pipeline across Pennsylvania . . . Let contracts to increase by 85% the capacity of a pipeline from Baton Rouge to the Southeastern states . . . At government request, re-activated two government-owned Butyl rubber plants; also continued operating two others which have been producing constantly since 1943 . . . Invested over 20 million dollars in laboratory research for new and improved processes and products.

IN WESTERN EUROPE



Proposed a plan which ended gasoline rationing in England . . . Went ahead of schedule in construction of a new refinery at Fawley, England, to be the largest in Europe . . . Expanded, improved or started construction of refineries in Norway, Belgium, West Germany, France, and Italy . . . Opened many new service stations, which served not only local motorists, but some 18,000 American tourists . . . Supplied 28% more fuel oil than a year ago, to meet needs for industrial expansion . . . Met the greatest demand for asphalt for new road building ever experienced in these areas.

IN THE MIDDLE EAST



Stepped up oil production substantially in Saudi Arabia . . . Opened the vitally important Trans-Arabian Pipeline system from oil fields on the Persian Gulf to the Mediterranean . . . over 1,000 miles of 30- and 31-inch pipe . . . Started construction of a large-diameter pipeline extending 550 miles from Iraq to the Mediterranean.

IN THE FAR EAST



Expanded production of crude oil in Indonesia and explored for oil in Papua . . . Increased output of refineries in Australia, Sumatra, Japan.

IN CANADA



Produced nearly 50% more oil than a year ago . . . Made new oil and gas discoveries in Ontario and Alberta . . . Operated nine refineries at 14% greater output than a year

ago . . . Opened a new 1,100-mile pipeline system from Alberta to Lake Superior, to carry crude oil toward the major Canadian refineries and markets.

IN SOUTH AMERICA



Set a new production record in Venezuela, second largest oil-producing country in the world . . . Operated the big Aruba refinery in the Netherlands West Indies at a higher rate than ever before . . . Met sharply increased call for products throughout the continent, to support the vigorous post-war development.

IN OCEAN TRANSPORT



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IN EMPLOYEE RELATIONS



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THE YEAR ENDED . . . THE JOB GOES ON. In 1950, for the first time, world use of oil outside the Iron Curtain passed 10 million barrels a day. For comparison, it was just over 7 million in 1945, the peak war year.

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It seems clear that more and more the world will look to oil to help keep it free and progressive. More and more it becomes clear, in meeting that need, that the American-developed business process of risk and result . . . of competition spurring corporate ingenuity and responsibility . . . is a strong and flexible system for promoting the welfare of people.

* We will be pleased to send a copy of the full report to anyone wishing it. Write Room 1626, 30 Rockefeller Plaza, New York 20, N. Y.

FINANCIAL SUMMARY

Standard Oil Company (New Jersey) and Consolidated Affiliates

Total income from sales, services, dividends and interest . . . \$3,198,266,000	Taxes collected for governments . . . \$294,749,000
Net income . . . \$408,223,000 or \$13.48 per share	Wages and other employment costs . . . \$548,205,000
Dividends . . . \$151,028,000 or \$5.00 per share	Spent for new plants and facilities . . . \$295,132,000
Taxes paid . . . \$276,000,000	Number of stockholder-owners . . . 222,000
	Number of employees . . . 116,000

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BUSINESS IN MOTION

To our Colleagues in American Business ...

There is a well-known maker of thermometers, barometers, hygrometers and clocks which has been a Revere customer since 1885. You might suppose that when two companies have been doing business that long, some 66 years, they would be so close that there would be little that either could contribute to the other. Yet both of us recently learned something, which shows how wise it is to avoid taking things for granted.

During the course of a call on the customer, a Revere salesman was told that some difficulties were being experienced with the stamping and drawing of brass into cases and bezels.

The Revere Technical Advisory Service was requested to investigate, and made a thorough study of the metal being used, and of factory methods and tools. The inquiry was, of course, conducted with the full consent and cooperation of the customer, who was just as eager as we were to know why, after so many years, the metal he was buying did not seem to give the usual results.

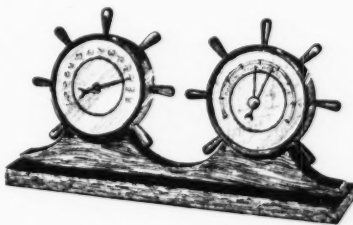
The Technical Advisory Report went into considerable detail. In broad terms, it found that such troubles as puckers, orange peel, and flare were due to a combination of factors, including composition of the brass, its temper, the design of the dies, and the lubricant used on them. New standards were set up for metal specification, covering alloy, temper, gauge. Although Revere does not design dies for fabricators, we made some suggestions for the consideration of the customer's designers.

After studying the report, the company decided to put these Revere recommendations to the proof

of actual trial. It was after the correctness of our suggestions had been demonstrated that Revere received a letter of thanks, ending with these sentences: "We are extremely grateful for this information, and it represents a splendid job and one of great value to us. If all our suppliers of other materials had extended to us the type of service we have had from Revere through the years, we would have had far fewer manufacturing problems."

For several years Revere has been saying in this space that suppliers generally are glad to collaborate with their customers as does Revere. Revere considers trouble is a fine introduction, and its solution the beginning of an enduring business relationship. So do other companies in other industries, though some may take a little prodding. After all, it is a supplier's business to know his materials, as well as to make and ship them. Any company worth doing business

with spends a lot of time and money learning as much as possible about its goods. When you buy, you pay for not merely so many pounds or feet or gallons or pieces or parts, but also for know-how, intelligence, information. You might as well obtain all you pay for, even if you have to dig a bit to get it. Indeed, it has been our observation that sometimes the information and collaboration that are not itemized on the bill are worth as much, if not more, than the materials themselves. So we again recommend that you take your suppliers into your full confidence, and let them work with you on problems concerning your use of their goods.



REVERE COPPER AND BRASS INCORPORATED

Founded by Paul Revere in 1801

Executive Offices:

230 Park Avenue, New York 17, N. Y.

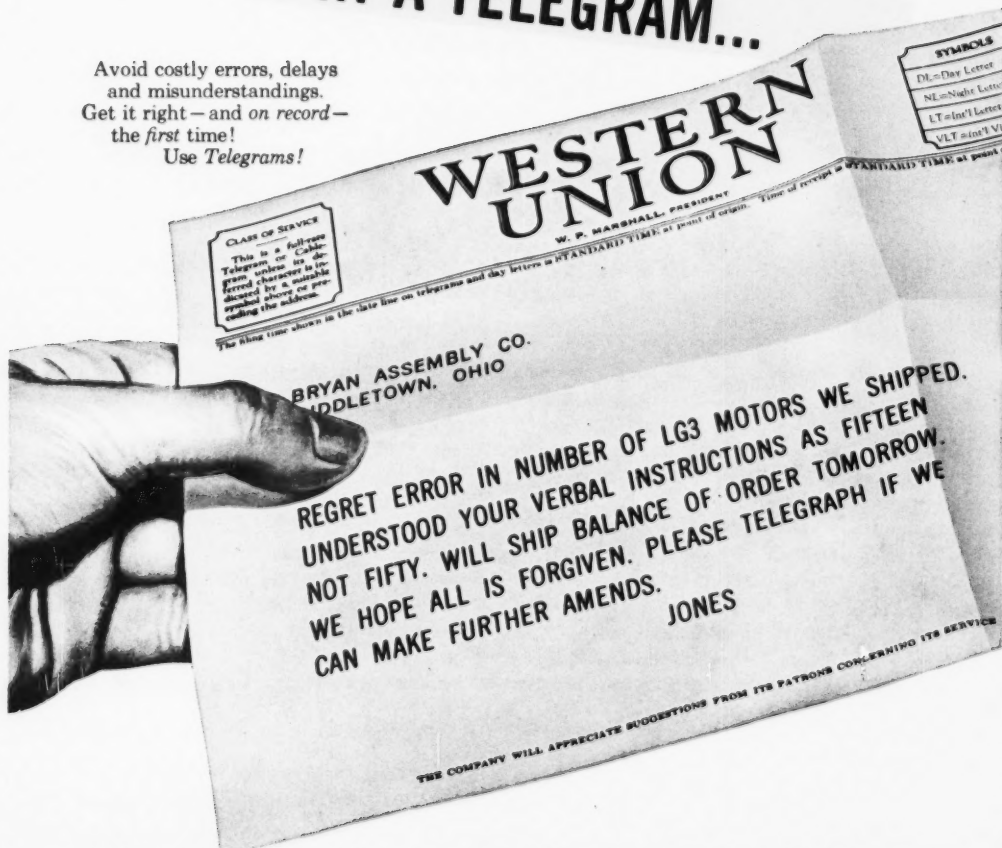
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